National Research Council Canada

Annual Report 2011-2012

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FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The following Financial Statement Discussion and Analysis (FSD&A) should be read in conjunction with the audited consolidated financial statements and accompanying notes for the National Research Council of Canada (NRC) for the fiscal year ended March 31, 2012.

The responsibility for the preparation of the FSD&A rests with the management of NRC. It has been prepared in accordance with the Public Sector Statement of Recommended Practice SORP-1.

The purpose of the FSD&A is to highlight information and provide explanations which enhance the users' understanding of NRC's financial position and results of operations, while demonstrating NRC's accountability for its resources. Additional information on NRC's performance is available in the NRC Departmental Performance Report (DPR).

The FSD&A consists of two distinct segments: Highlights, and Discussion and Analysis. Please note that all financial information presented herein is denominated in Canadian dollars, unless otherwise indicated.

Special note regarding forward-looking statements

The words "estimate", "will", "intend", "should", "anticipate", and similar expressions are intended to identify forward-looking statements. These statements reflect assumptions and expectations of NRC, based on its experience and perceptions of trends and current conditions. Although NRC believes the expectations reflected in such forward-looking statements are reasonable, they may prove to be inaccurate, and consequently NRC's actual results could differ materially from expectations set out in this FSD&A. In particular, the risk factors described in the "Risks and Uncertainties" section of this report could cause actual results or events to differ materially from those contemplated in forward-looking statements.

Overview

The National Research Council (NRC) was established by the *National Research Council Act*. The mission of NRC is to work with clients and partners to provide strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

NRC's budget is allocated through appropriations approved by Parliament, and some of NRC's operations are funded through revenue generated from external parties. NRC has separate voted appropriations for Operating expenditures, Capital expenditures and Grants and contributions, as well as statutory authority for spending of revenues (pursuant to paragraph 5 (1) e of the *National Research Council Act*), Contributions to employee benefit plans, Spending proceeds from the disposal of surplus Crown assets, Collection agency fees and Losses on foreign exchange.

Appropriations provided to NRC do not parallel financial reporting according to Canadian public sector accounting standards since appropriations are primarily based on cash accounting principles. Consequently, items recognized in the Consolidated Statement of Operations and the Consolidated Statement of Financial Position are not necessarily the same as those provided through appropriations from Parliament. Note 3 of the consolidated financial statements provides a reconciliation between the bases of reporting.

Reporting Entity

These consolidated financial statements include a portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT). In 2011-12, NRC determined that its relationship with CFHT constituted a government partnership for accounting purposes and should be proportionately consolidated in NRC's financial statements. Further details are described in Note 2b and 4b of NRC's consolidated financial statements.

Restatement of 2010-11 Figures

During 2011-12, amendments were made to *Treasury Board Accounting Standard 1.2 – Departmental and Agency Financial Statements.* This standard is the primary source of accounting guidance used by Government of Canada departments and agencies when preparing departmental financial statements. Notable changes under the new standard include government funding and transfers being shown on the Statement of Operations and Departmental Net Financial Position, as well as a "Planned Results" column used as comparables. The Consolidated Statement of Financial Position has also been changed to now include the Departmental net debt position. The Statement of Equity has been removed and a Statement of Change in Net Debt added. To comply with the new standard, certain comparative figures from 2010-11 have been restated as detailed in Note 4 of NRC's consolidated financial statements. Variances described in this document refer to the restated figures.

2010-11 figures were also restated to take into account the proportionate consolidation of CFHT described above.

HIGHLIGHTS

Consolidated Statement of Financial Position

NRC's financial position, as shown by the Departmental net financial position line, has improved from $514.8 million as at March 31, 2011 to $525.2 million as at March 31, 2012. NRC's total net liabilities as of March 31, 2012 were $267.1 million in 2012, a decrease of $44 million from 2011, while net financial assets totalled $216.3 million, a decrease of $9.2 million from 2011. A decrease in Tangible capital assets is the primary reason for a $24.4 million decrease in non-financial assets as at March 31, 2012.

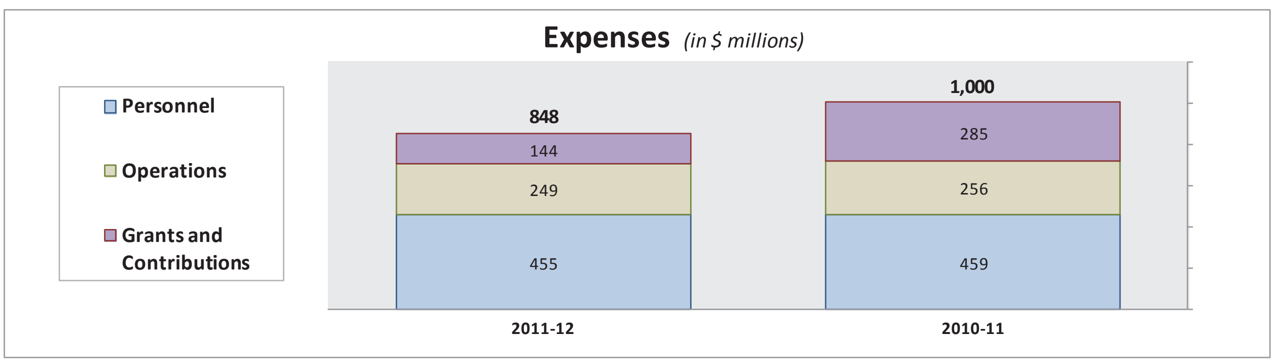
NRC's departmental net debt represents NRC's total Net Liabilities, less its Total Net Financial Assets – a measure of future income required to pay for past transactions and events. It decreased by $34.8 million, from $85.6 million in 2010-11 to $50.8 million in 2011-12.

Detailed explanation and analysis of liability and asset balances can be found in the *Variance and Trend Analysis* section.

Consolidated Statement of Operations and Departmental Net Financial Position

NRC's 2011-12 net cost from continuing operations was $676.7 million, a significant decrease from $832.0 million in 2010-11. While revenue increased slightly by $2.8 million to $170.9 million, expenses decreased by $152.4 million to $847.6 million. Grants and contributions expenses decreased by $141.7 million, mainly related to industrial research assistance provided by NRC. NRC's $10.4 million surplus from operations after government funding and transfers ($25.6 million surplus in 2010-11) resulted in an increase in its Departmental net financial position from $514.8 million to $525.2 million.

The following chart illustrates NRC's total expenses categorized by major expense over the past two fiscal years:



For further details and analysis of revenue and expense amounts and variances, refer to the section *Variance and Trend Analysis* below.

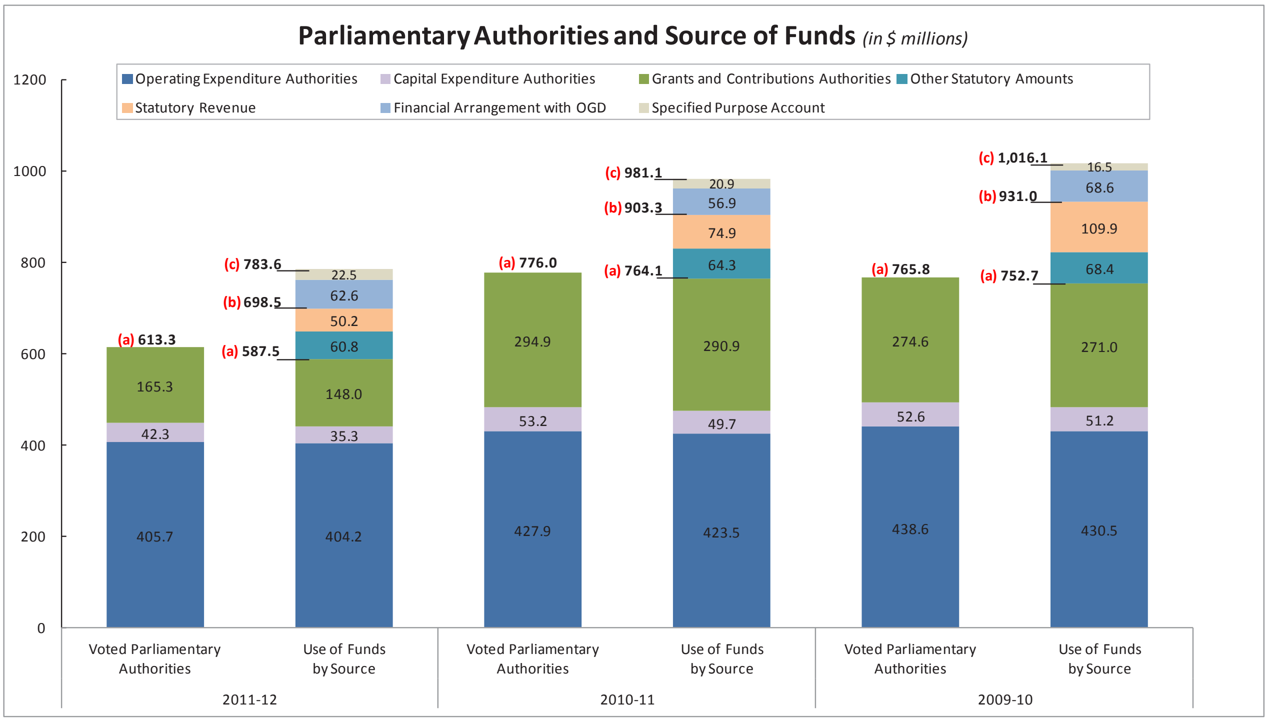
Consolidated Statement of Cash Flow

The net cash provided by the Government of Canada in 2011-12 was $657.9 million ($825.1 million in 2010-11). Cash used in operating activities declined by $149.8 million and there was a $17.6 million decrease in cash used in capital investing activities.

Parliamentary Authorities

Parliamentary authorities are primarily based on cash accounting principles. They are shown in Note 3 of the NRC consolidated financial statements.

The following chart illustrates NRC's voted parliamentary authorities over the past three fiscal years, including the Main Estimates, the Supplementary Estimates, Transfers, Adjustments and Warrants. Statutory amounts (Spending of revenues pursuant to paragraph 5 (1) e of the *National Research Council Act*, Contributions to employee benefit plans, Spending proceeds from the disposal of surplus Crown assets, Collection agency fees and Losses on foreign exchange) are shown within "Actual Spending by Source".



a) Total Voted Parliamentary Authorities: NRC is provided with Parliamentary Authorities in three Votes: Vote 60 – Operating expenditures, Vote 65 – Capital expenditures, and Vote 70 – Grants and contributions.
b) Total Authorities Used: The total authorities used during the year (and shown in Note 3 of NRC's consolidated financial statements). These include voted authorities and statutory authorities.
c) Total Funds Spent: All authorities, as well as NRC spending of funds from Other Government Departments and Specified Purpose Accounts.

In 2011-12, available parliamentary authorities decreased by $162.7 million, from $776.0 million in 2010-11 to $613.3 million, primarily due to the sunsetting of funding received under Canada's Economic Action Plan (EAP). Available Parliamentary Authorities in both 2009-10 and 2010-11 are significantly higher than 2011-12, reflecting EAP funding.

NRC's actual use of funds applied to Voted parliamentary authorities totalled $587.5 million. In addition, NRC had $60.8 of Other statutory authorities and $135.4 million of revenue funded expenditures.

Refocusing NRC

NRC is shifting more support toward Canadian businesses, to assist them to develop innovative products and services. This is a change that NRC believes will make the organization a much more attractive and valuable partner to industry, and enable it to make a much larger contribution to innovation in Canada.

As outlined in the 2012 federal budget, NRC will strengthen its market-driven business models to understand and address real industry issues in a timely manner, such as increasing innovation capacity, reducing risk in early stage technology development, and facilitating the development and deployment of innovative products, processes and services for targeted markets.

Much of 2011-12 was focused on defining, planning and setting the foundations for NRC's new strategic direction. NRC is moving from a technology-push approach, to one that is much more business-like, focused on market-driven innovation outcomes and benefits to Canada. The value to industry will be powered by strong business-like management, a sound financial system, and an increased focus on the needs of industry clients.

NRC also reviewed its vision and mission. Once fully in force, NRC's vision is to be the most effective research and technology organization in the world, stimulating sustainable domestic prosperity. Working with clients and partners, NRC's mission is to focus on the innovation services, strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

This brings greater strategic and market focus to the research, technology development and innovation work NRC does with industry and the public sector; to create greater short-term impact and contribute to Canada's long-term sustainable prosperity.

DISCUSSION AND ANALYSIS

Uncertainties

NRC funds the majority of its salary, operating and capital expenditures from parliamentary appropriations. The non-salary portion of this funding is fixed, with no indexing for price increases. As a result, the actual funding for NRC, in terms of buying power, has been declining over the past decade. Furthermore, when excluding the effect of funds received through Canada's Economic Action Plan in 2010-11 and 2009-10, NRC's parliamentary appropriations have decreased yearly since 2006-07.

NRC owns and manages 182 specialized buildings and facilities across Canada that comprise approximately 556,000 square meters of space. It also has an equipment and informatics base (excluding CFHT assets) of $607.7 million in cost, with $173.8 million in net book value ($615.1 million in cost, with $188.2 million in net book value in 2010-11). NRC's capacity to fund the upgrade or replacement of these assets from its appropriations is limited. However, through its 5 year investment plan, NRC is investing funds to maintain its buildings and laboratories.

Sunsetting Funding: For certain new initiatives, it is the practice of the government to provide funding on a sunsetting basis. Rather than providing a permanent increase to appropriations, the government may allocate funding for specified purposes for a limited period of time with the option for renewal. Renewal is conditional on various factors, including performance, achieving desired objectives, linkages to priorities, and availability of funds.

Although NRC funding is not necessarily provided on an ongoing basis, new government-approved initiatives often entail ongoing commitments from NRC such as maintenance of new facilities and new staff salaries. There may be stakeholders that support these new initiatives, and in some cases invest in them, with expectations that the initiative will exist beyond the original funding window. These challenges add complexity to planning, budgeting and operations.

Currently, NRC has numerous initiatives and projects funded on a sunsetting basis, examples of which include the following:

- Digital Technologies Adoption Pilot Program (DTAPP): DTAPP, administered by NRC-IRAP, represents a significant investment into the Canadian economy in an effort to increase the productivity growth of small and medium-sized enterprises (SMEs) in Canada across all sectors through the adoption of digital technologies. NRC-IRAP received funding of $28 million and $29 million in 2012-13 and 2013-14 respectively.

- TRIUMF: The current contribution agreement with TRIUMF (Canada's National Laboratory for Particle and Nuclear Physics) expires at the end of 2014-15 and will provide $133 million in funding over the next three years. Since 1976, NRC has provided over $1 billion in funding to TRIUMF, with $44 million provided in 2011-12.

- Genomics R&D Initiatives: The Genomics R&D Initiatives (GRDI) is a federal program that coordinates genomics R&D in 6 federal departments and agencies to support their mandates, public policy objectives and key national interest in human health, agriculture and food safety, environment and natural resources management. NRC will receive funding of $8.8 million in each of 2012-13 and 2013-14 for this initiative.

Foreign Currency: In its normal course of operation, NRC makes some purchases in foreign currencies, which expose it to an element of risk due to fluctuations in foreign exchange. NRC purchased C$48 million worth of goods and services in foreign currencies in 2011-12 (C$43.1 million in 2010-11). 94% of these foreign currency purchases were in US dollars (94% in 2010-11). During 2011-12, it cost NRC an average of $0.998 Canadian dollars to purchase $1 US ($1.014 in 2010-11). In addition, NRC had C$29.3 million worth of foreign currency receipts in 2011-12, of which $28.7 million (98%) was received in US currency, compared to $37.3 million out of $38 million (98%) received in 2010-11. These figures exclude CFHT-related amounts.

Revenue: NRC activities generate revenues which can be reinvested in operations. NRC has increased its external sources of funding over the past years. The portion of NRC's salary, operating and capital expenditures funded from external sources of income reached 21% in 2011-12.

NRC's Centre for Surface Transportation Technology (NRC-CSTT) and NRC's Canadian Hydraulics Centre (NRC-CHC) rely primarily on external sources of revenue to fund their operations. In addition, NRC's largest institute – NRC's Institute for Aerospace Research (NRC-IAR) – generates external revenue to fund 57% of its operations. Significant downturns in the industries or government partners that these groups deal with could impact NRC's ability to continue operations at current levels.

As part of its organizational strategy, NRC is looking to further increase external revenue in future years.

Shared Services Canada

Effective November 15, 2011, NRC transferred responsibility for its email, data centre and network services and support to Shared Services Canada (SSC) in accordance with an Order-in-Council described in Note 16 of NRC's consolidated financial statements. Net liabilities of $2 million were transferred to SSC and are not included within NRC's Consolidated Statement of Financial Position. NRC continued to administer the transferred activities on behalf of SSC for the remainder of the fiscal year. During the transition period, $8.7 million of expenses and were incurred on behalf of SSC, and were transferred to SSC at year-end. These expenses are included in NRC's Consolidated Statement of Operations and Departmental Net Financial Position as shown in Note 15a (Common services provided without charge by other government departments and agencies).

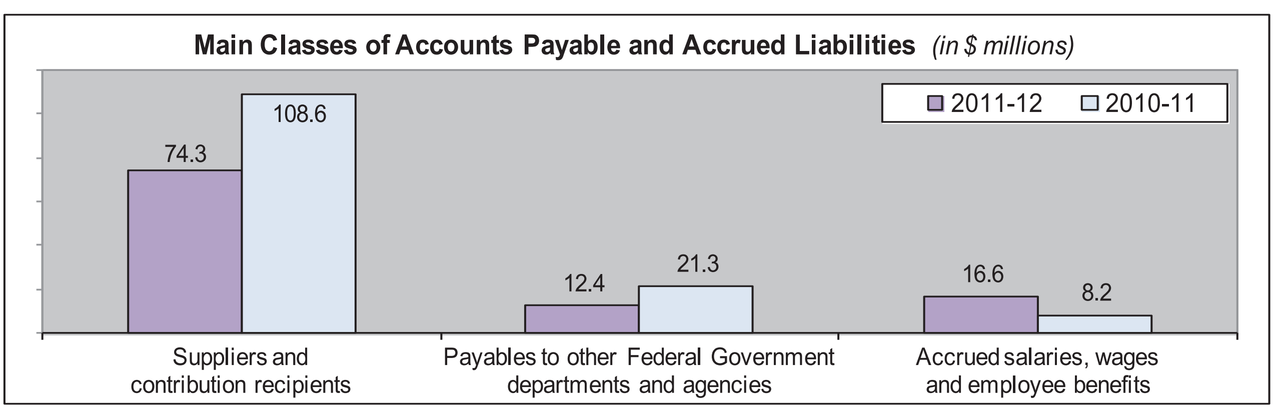
Variance and Trend Analysis

The following analysis explains the meaning of main items appearing on the consolidated financial statements, significant variances, and financial trends.

Liabilities

NRC's total net liabilities were $267.1 million as at March 31, 2012, consisting of $269.2 million of gross liabilities, of which $2.1 million are accounts payable and accrued liabilities held on behalf of government. Net liabilities decreased by $44.0 million from the prior year balance of $311.1 million. NRC's gross liabilities consist of the following:

Accounts Payable and Accrued Liabilities: NRC's accounts payable and accrued liabilities as at March 31, 2012 were $104.9 million ($139.4 million as at March 31, 2011). The $34.5 million decrease is mainly due to a $34.3 million decrease in payables to suppliers and contributions payable as well as an $8.8 million decrease in payables to other government departments, partially offset by an $8.3 million increase in accrued wages and employee benefits. Accounts payable and accrued liabilities are broken down in Note 5 of the consolidated financial statements. The following graph shows the three largest categories.

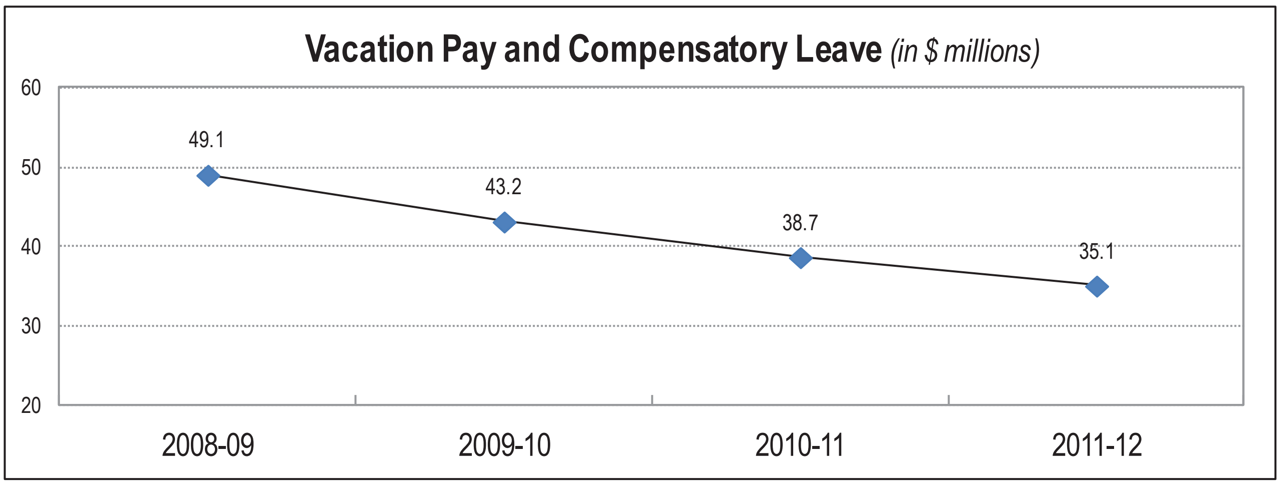


The $34.3 million decrease in payables to suppliers and contribution recipients is the result of a decrease in the amount of purchases toward the end of the fiscal year when compared to the previous year. The $8.9 million decrease in payables to other federal government departments and agencies is caused by a reduction in the amount owed to Treasury Board by NRC related to employee benefit plans (EBP).

The $8.4 million increase in Accrued salaries, wages and employee benefits was mainly the result of a $4.1 million increase in the termination benefits accrual, and recognizing $3.9 million in retroactive pay from anticipated collective bargaining settlements.

Also included within Accounts Payable and Accrued Liabilities are contaminated site liabilities which increased by $557 thousand. As disclosed in Note 14a of the consolidated financial statements, a new site liability was established in 2011-12 for remediation work expected.

Vacation Pay and Compensatory Leave: Vacation pay and compensatory leave liabilities have decreased in each of the past three fiscal years, to total $35.1 million at March 31, 2012 – a $3.6 million decrease from 2010-11. The decrease is a result of additional restrictions imposed on carry-over conditions in recent collective bargaining agreements and management oversight activities taken to manage outstanding vacation liabilities.



Deferred Revenue: Deferred revenue totalled $60.7 million as at March 31, 2012, compared to $63.8 million in 2011, and is broken down in Note 6 of the consolidated financial statements. The two main categories of deferred revenue are as follows:

Contributions Related to Leased Tangible Capital Assets

Deferred revenue for contributions related to leased tangible capital assets result from tangible capital assets provided to NRC under three lease agreements with monetary consideration below fair market value. These leases of facilities were established at nominal cost with the University of Western Ontario to accommodate NRC's Industrial Materials Institute (NRC-IMI) and NRC's Institute for Research Construction (NRC-IRC), the University of Alberta to accommodate NRC's National Institute for Nanotechnology (NRC-NINT), and the University of Prince Edward Island to accommodate NRC's Institute for Marine Biosciences (NRC-IMB).

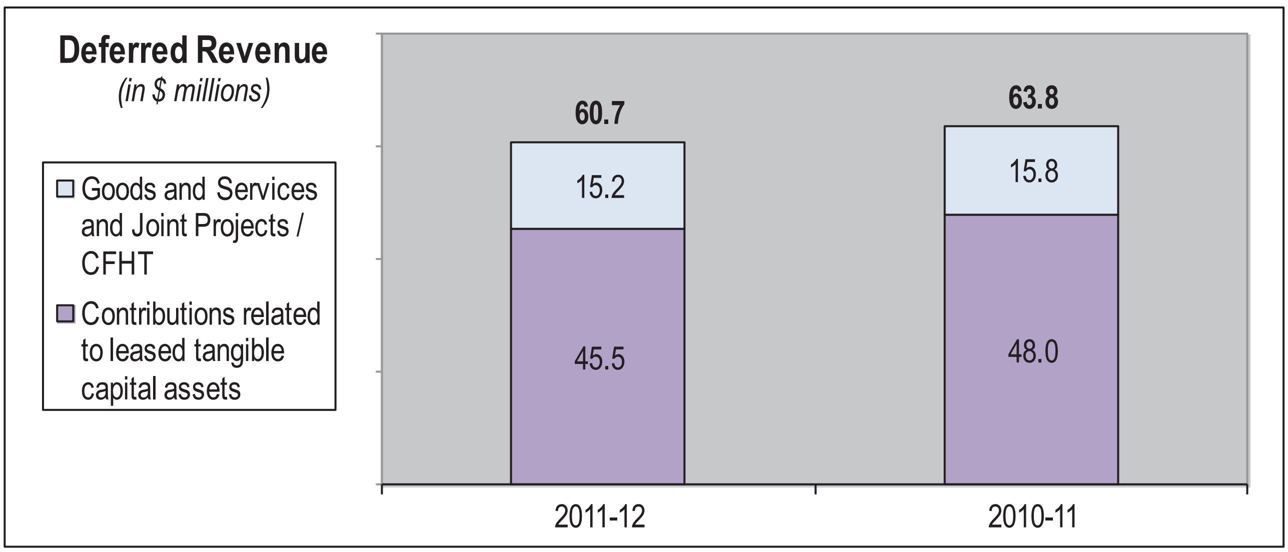
When new capital leases are recognized, NRC establishes a non-financial tangible capital asset as well as corresponding deferred revenue equal to the fair market value of the capital lease. Over time and as the asset is used, NRC recognizes equal amounts of amortization and revenue (lease inducement revenue). As a result, no impact occurs on NRC's net cost of operations or its net financial position. As at March 31, 2012, the balance of the liability was $45.5 million ($48 million as at March 31, 2011). The balance decreased by $2.5 million in the current year, representing the revenue recognized in the year.

Goods and Services and Joint Projects

NRC had other deferred revenues related to goods and services and joint projects of $15.1 million as at March 31, 2012 ($15.7 million as at March 31, 2011). This balance includes $7.7 million related to collaborative research projects ($8.9 million in 2010-11) and $2.1 million related to projects under NRC's Canadian Construction Materials Centre ($1.8 million in 2010-11). Funds for these two types of projects are generally received prior to work commencing and revenue is recognized as services are provided.

$1.7 million of the balance relates to funds received for construction of a facility for the Hitachi Electron Microscopy Product Centre (HEMIC) ($1.7 million as at March 31, 2011), a collaboration involving NRC-NINT. The revenue will be recognized over the life of the collaboration, beginning when the facility is put into use in 2012-13.

Lastly, $2 million of the balance comes from deferred conference and seminar registration fees received for events that have not yet occurred ($1.2 million as at March 31, 2011). NRC conducts many conferences and seminars which often require registration many months in advance of the conference date. Receipts from registration are recorded as deferred and recognized when the conference takes place.



Employee Future Benefits: Employee future benefits represent the liability for severance benefits payable to employees upon termination of employment with the public service. The allowance is established at year end by applying an actuarial rate to total annual salary cost of NRC's indeterminate employees. This rate is determined by Treasury Board based on the liability for the government as a whole.

A change to employment conditions for executives and certain non-represented employees has resulted in the cessation of accumulation of their severance benefits beginning in 2012. Some of these employees have elected to have their benefits accumulated to date partially or fully paid out, reducing NRC's total liability. This, as well as a decrease in salary expense for NRC's continuing workforce, explains the $2.8 million decrease in employee future benefits.

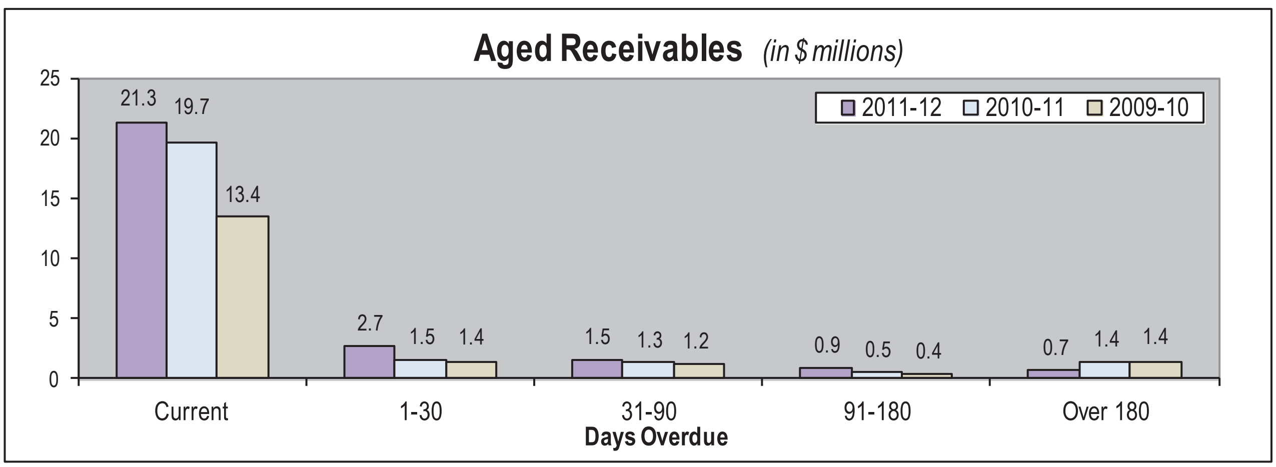
Financial Assets

Due from Consolidated Revenue Fund (CRF): This account represents the amount of cash that NRC is entitled to withdraw from the federal government treasury. This includes cash to discharge liabilities for which NRC has already received an appropriation, as well as revenue received but not spent. NRC's due from CRF was $183.8 million as at March 31, 2012, down from $197.3 million as at March 31, 2011. Changes in the composition of the balance include a $42 million decrease in accounts payable eligible for payment from the CRF and a $20.1 million decrease in specified purpose account deferred revenue, partially offset by a $48.4 million increase in revenue available for use in subsequent years.

Accounts Receivable: Accounts receivable and advances totalled $28.9 million as at March 31, 2012, a $3 million increase from 2011. Details can be found in Note 9 to the consolidated financial statements.

Receivables from external parties: NRC had accounts receivable with external clients worth $21.9 million as at March 31, 2012 ($19.2 million - 2011). The corresponding allowance for doubtful accounts was $497 thousand ($682 thousand - 2011), a favourable amount considering the total value of NRC's external revenues. The increase in accounts receivable from external parties is consistent with the higher level of revenue generated from total sales of goods and services in the year.

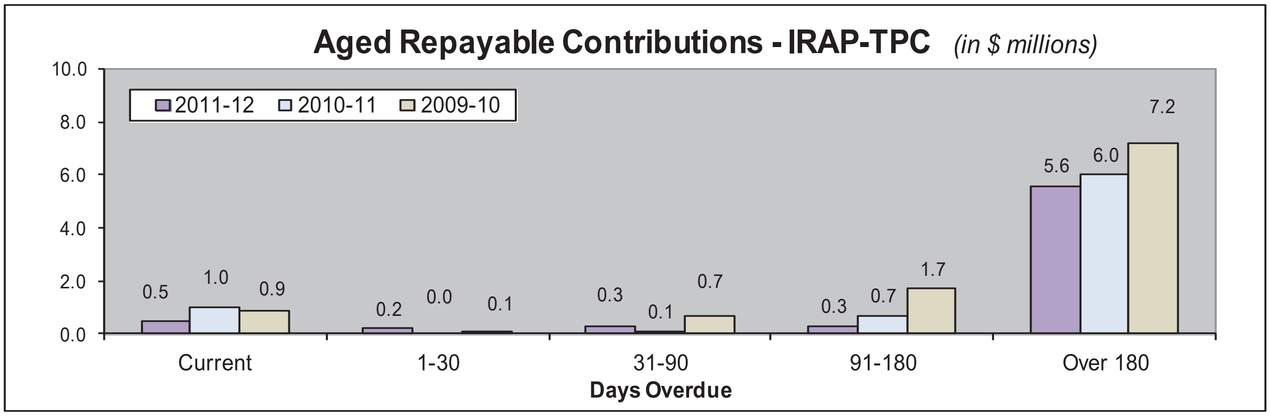
Aged Accounts Receivable: The graph below shows the aged accounts receivable from external parties, other government departments, and employee advances, but does not include repayable contributions under the NRC-IRAP Technology Partnerships Canada (TPC) program, which are shown separately. In 2011-12, 94% (92% in 2010-11) of accounts receivable were aged 90 days or below indicating that operating receivables are collected in a timely manner.



NRC-IRAP TPC Repayable Contributions

The NRC-IRAP Technology Partnerships Canada (TPC) program has been administered by NRC on behalf of Industry Canada since 1998. This program provides conditionally repayable contributions to small and medium-sized enterprises (SMEs) to support the pre-commercialization phase of their technology development. This conditional repayment program, in most cases, requires quarterly repayments of the contribution based on a percentage of the recipient's gross revenue once certain conditions are met. Although no new contributions have been made since 2008-09, the wind down phase requires the collection of the repayable contributions over the next several years as per repayable contribution agreements in place and conditions therein.

The TPC program supports small start-up firms, whose future success is often entirely dependent on one technology. Failure to bring the technology to market, at times, can result in the firm ceasing operations. The TPC accounts receivable as at March 31, 2012 was $6.9 million ($7.8 million in 2011) with a corresponding allowance for doubtful accounts of $4.8 million ($5.7 million in 2011). The large allowance, as well as the fact that a majority of TPC receivables are aged greater than 180 days (see graph below), highlight the collection risk of the program. The portion of the TPC program administered by NRC is being transferred back to Industry Canada in 2012-13.



***Cash and Investments**:* This line item includes Cash and investments held by CFHT, as well as Equity Investments held by NRC. It is broken down in Note 10 of the consolidated financial statements. CFHT Investments include time certificates of deposit and U.S. government securities.

As part of its mandate to promote industrial innovation in Canada, NRC provides financial assistance to firms through access to equipment, intellectual property and incubation space in its laboratories and Industrial Partnership Facilities. NRC has on occasion taken an equity position in a company in return for assistance provided. NRC divests of equity investments by taking into account the interests and market liquidity of the company involved.

The full value of equity investments recorded on the Consolidated Statement of Financial Position reflects NRC's investment in publicly traded companies as its shares in privately held corporations are deemed to have no market value. NRC's equity investments decreased from $472 thousand to $344 thousand in 2011-12 as a result of write-down in the book value of NRC's shares in two public companies. NRC also sold shares in a private company, realizing a gain of $354.

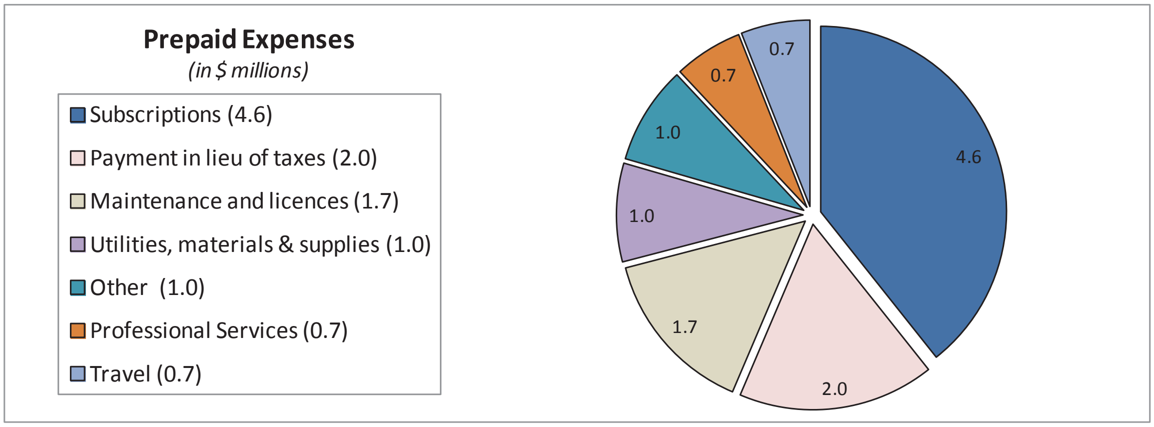
The following table provides an overview of NRC's 2011-12 equity holdings and disposal transactions.

Company	Opening balance ($)	Book value of equity investments acquired, sold or written off during the year ($)	Closing balance ($)	Market value of publicly traded equity investments ($)	Proceeds from sale of equity investments ($)	Gain on sale of equity investments ($)
Privately held Corporations	2	(1)	1	n/a	355	354
Chemaphor Inc.	252,061	(63,015)	189,046	119,729	-	-
PharmaGap Inc.	219,889	(64,673)	155,216	45,271	-	-
Cequence Energy Ltd.	1	-	1	4,685	-	-
Total	**471,953**	**(127,689)**	**344,264**	**169,685**	**355**	**354**

NRC intends to eventually liquidate the remaining equity positions.

Non-Financial Assets

Prepaid Expenses: NRC's prepaid expenses as at March 31, 2012 were $11.7 million ($11.5 million as at March 31, 2011). Subscriptions make up the largest component of NRC's prepaid expenses. Canada's science library subscribes to many of the world's major scientific and technical journals and databases.



Endowment Fund Investments: The Holmes Endowment Fund is an investment bequeathed to NRC in July 1994. Up to two-thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award. The award covers a one- or two-year period and provides the opportunity to Canadian post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers. In 2011-12, NRC provided a grant totalling $115 thousand to the recipient of the 2011 NRC H.L. Holmes Award. The recipient is using the total award of $200 thousand to fund two years of collaborative research at the Wellcome Trust Sanger Institute in Cambridge in the UK. The research combines genetic sequencing with computer informatics to better understand breast cancer.

The endowment fund had a fair market value of $5 million on March 31, 2012 ($4.8 million on March 31, 2011). The investments within the portfolio had an average effective return of 4.41%. The endowment fund is presented at an amortized cost of $4.7 million ($4.6 million as at March 31, 2011) on the Consolidated Statement of Financial Position and not at fair value.

Tangible Capital Assets: NRC's tangible capital asset net book value has decreased from $579.5 million in 2010-11 to $555.5 million in 2011-12. Total tangible capital asset acquisitions totalled $45.1 million, amortization totalled $66.0 million, and net adjustments, disposals and write-offs totalled $3.3 million.

Acquisitions

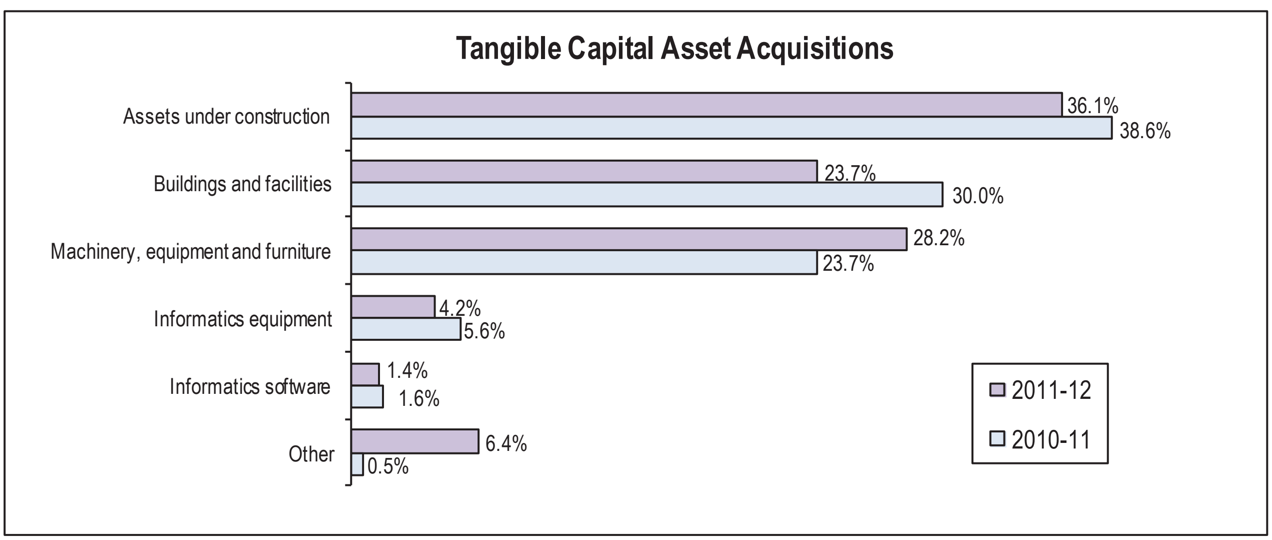
Additions to Tangible Capital Assets totalled $45.1 million 2011-12, a decrease from the $62.3 million spent in 2010-11. Of the $45.1 million in tangible capital asset additions, $16.3 million relates to spending on assets under construction as at March 31, 2012. The remaining balance is primarily made up of investments in machinery, equipment and furniture ($12.7 million or 28%), as well as $10.7 million or 24% in buildings and facilities. In 2010-11, $10.1 million was spent in capital asset additions from funding received under Canada's Economic Action Plan.

The following represents significant tangible capital assets expenditures in 2011-12:

- $9.8 million of recapitalization work was completed in 2011-12 including: electrical system upgrades ($2.8 million), roofing ($2.1 million), mechanical system upgrades ($1.7 million), site work ($1.7 million), interior architectural work ($700 thousand), elevator upgrades ($500 thousand), and exterior building upgrades ($300 thousand)

- $1.8 million was invested in an energy retrofit for the 100 Sussex Drive Building. This investment will be completed in 2013-2014 and is forecasted to save $1.0 million annually in energy savings. The planned total project costs for this project is $8.9 million.
- NRC's Institute for Microstructural Sciences (NRC-IMS) invested $1 million (in addition to $1.2 million invested in 2010-11) on a SPTS Ii2L model Inductively Coupled Plasma (ICP) etch tool. The Canadian Photonics Fabrication Centre (CPFC) at NRC-IMS fabricates a variety of lasers, detectors and modulators for a large number of external clients. The fabrication process involves a dry etching process under vacuum. The new ICP etch tool will provide improved Etch process uniformity and control, reduced down time, and increased dry etch capacity in the largest segment of CPFC's activities.
- NRC's National Institute for Nanotechnology (NRC-NINT) invested $760 thousand (in addition to $3.3 million in previous years) toward a project to build an equipment room and renovate existing floor space to meet the requirements of new equipment being installed as part of the Hitachi Microscopy Products Centre (HEMIC) initiative, a $14 million collaboration expected to speed up commercialization of NINT microscope innovations.
- NRC's Human Resource Branch invested $700 thousand into a human resources project that will leverage NRC's existing SAP financial system. This investment will enable NRC to support its employees, managers and corporate functions through a highly automated and efficient HR service offering, with a strong base of web-accessible self-service functions available 24/7 via a self-service portal. The project is expected to be complete in 2015-2016 and has an estimated total project cost of $5.6 million.
- NRC's Institute for Aerospace Research (NRC-IAR) invested $640 thousand (in addition to $1.7 million invested in 2010-11) in a test facility to support a large high pressure and high temperature combustion project. This is a key asset to test and develop low emission gas turbines, and generate revenue for NRC through rentals of the test facility.
- NRC's Plant Biotechnology Institute (NRC-PBI) invested $600 thousand into the purchase of advanced genomics technologies to support activities directly related to the Genome Canada Canadian Triticum Advancement through Genomics (CTAG) project. This project, led by the University of Saskatchewan Crop Development Centre, will provide the basis for new breeder tool development which will ultimately lead to more profitable Canadian wheat varieties.

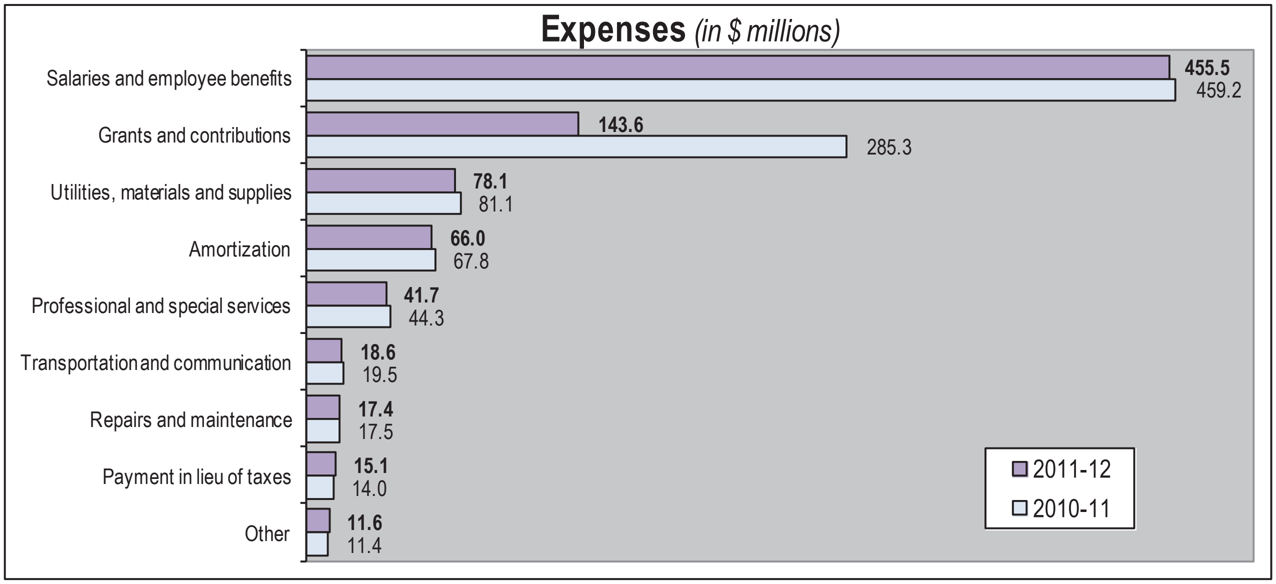
The following diagram depicts NRC's distribution of tangible capital asset acquisitions over the last two fiscal years.



Expenses

Expenses are shown in the Consolidated Statement of Operations and Departmental Net Financial Position by Program Activity Architecture (PAA) categories. They are detailed by type of expense in Note 16 of the consolidated financial statements.

NRC's expenses decreased from $1,000.1 million in 2010-11 to $847.6 million in 2011-12. The two largest categories of expenses are salaries and employee benefits (53.7% of total expenses in 2011-12 and 45.9% in 2010-11) and grants & contributions (16.9% of total expenses in 2011-12, 28.5% in 2010-11). The following table illustrates expenses by type of expense:

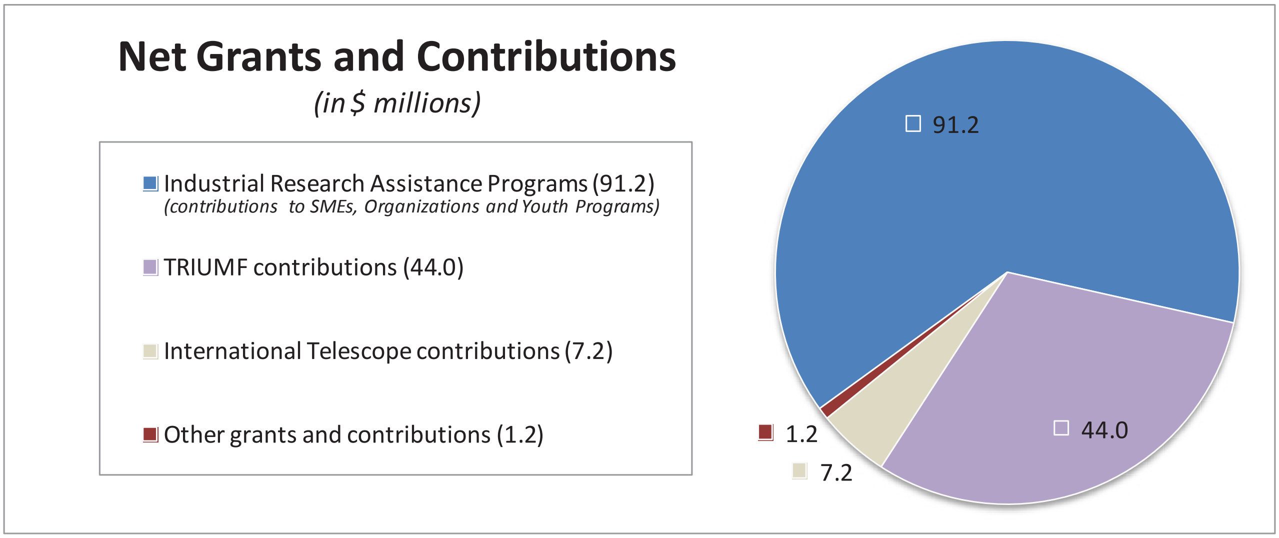


Gross expenses (including those incurred on behalf of government) of $848.7 million were $11.2 million lower than the amount forecast in NRC's Future Oriented Financial Statements reported in the 2010-11 Report on Plans and Priorities (RPP), and shown as Planned Results on the Consolidated Statement of Operations and Departmental Net Financial Position. The variance is primarily from non-salary operating expenses below forecast amounts due to expense restraint measures, most notably utilities materials and supplies, professional and special services, transportation and communication, and amortization.

Salaries and Employee Benefits: Salaries and employee benefits include such costs as gross salaries and wages, overtime pay, retroactive salary adjustments, employee entitlements and allowances, severance pay, pension and medical benefits. Total NRC salaries and employee benefits have decreased by $3.7 million, from $459.2 million in 2010-11 to $455.5 million in 2011-12. The decrease is primarily the result of fewer full-time equivalent employees (FTEs) compared to 2010-11.

Grants and Contributions*:* Grants and contributions decreased by $141.7 million, from $285.3 million in 2010-11 to $143.6 million in 2011-12. This decrease is the result of reduced parliamentary appropriations for grants and contributions due to the sunsetting of Canada Economic Action Plan (EAP) funding: $100 million for NRC's Industrial Research Assistance Program (NRC-IRAP), and the remainder from the Federal Economic Development Agency for Southern Ontario and the Community Adjustment Fund.

The following chart illustrates NRC's net grants and contributions categorized by major program.



Utilities, Materials and Supplies: Utilities, materials and supplies include expenditures such as electricity, natural gas, serial renewals, electronic data processing (EDP) equipment with cost under $5,000, fuel, software, laboratory equipment and laboratory products. Utilities, material and supply costs decreased by $3.0 million from $81.1 million in 2010-11 to $78.1 million in 2011-12. The 3.7% decrease is due to reduced spending in several areas including chemical and related products and electronic data processing equipment. These types of variations are a result of the varying nature of projects from year to year which can have different material and supply requirements.

Amortization: Tangible capital assets yield benefits over many accounting periods. As such, NRC's use of tangible capital assets to provide services is recognized as an expense on a straight-line basis over the estimated useful life of each asset class. Amortization expense amounted to $66 million in 2011-12 ($67.9 million in 2010-11).

Professional and Special Services: Professional and special services decreased by $2.6 million in 2011-12, from $44.3 million in 2010-11 to $41.7 million. This 5.9% decrease is primarily due to reduced spending on professional fees related to building improvements. Another factor was the $2 million spent remediating contaminated sites in 2010-11. As most remediation work as completed in past years, only $52 thousand of decontamination costs were incurred in 2011-12.

Transportation and Communication: Transportation and communication expenses decreased by $0.9 million in 2011-12, from $19.5 million in 2010-11 to $18.6 million in 2011-12. The 4.6% decrease is mainly attributable to NRC's ongoing efforts to reduce travel costs, which have decreased yearly since 2008-09.

Repairs and Maintenance: NRC has a significant amount of capital investments, such as buildings, facilities, and research equipment. The repair and maintenance costs related to the maintenance of these assets totalled $17.4 million in 2011-12 and is consistent with the $17.5 million incurred in 2010-11.

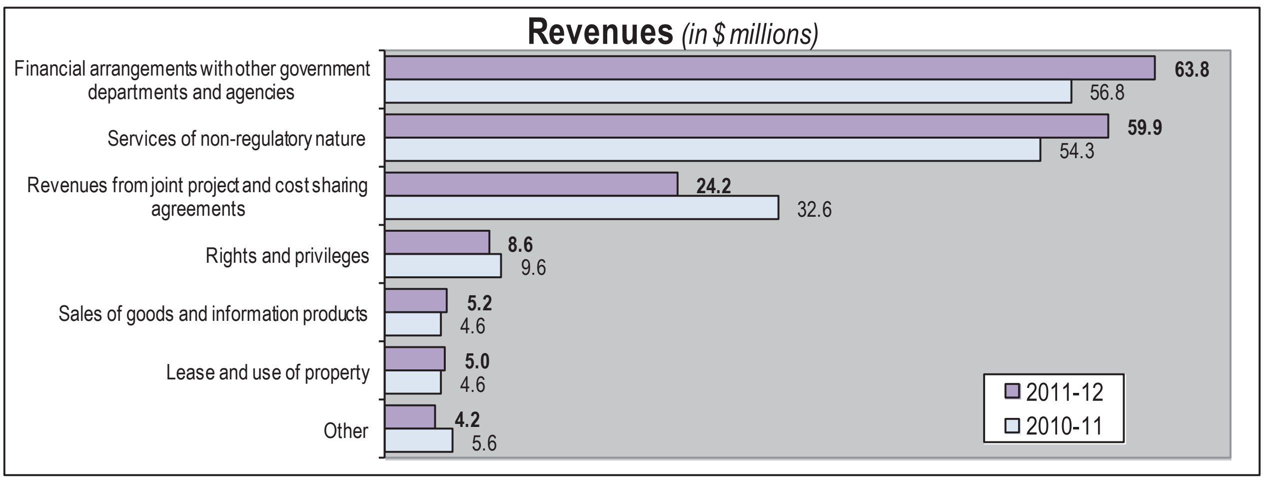
Payment in lieu of taxes (PILT): NRC owns property and as an agency of the Government of Canada, is exempt from paying property tax. Since federal properties benefit from the services provided by Canadian municipalities, the Government of Canada firmly supports the principle that, as a property owner, it should share the cost of local government equitably with other property owners in the community. As such, federal departments and agencies, including NRC, transfer amounts to municipalities in lieu of taxes. Public Works and Government Services Canada (PWGSC) assesses the amount to be transferred by NRC under the PILT program each year. In 2011-12, NRC paid PILT of $15.1 million ($14 million in 2010-11).

Other: Other expenses of $11.6 million ($11.4 million in 2010-11) include, but are not limited to, rental charges of $4.6 million ($4.6 million in 2010-11), award costs of $2.3 million ($2.7 million in 2010-11), cost of goods sold of $2.5 million ($1.7 million in 2010-11) and information costs of $2 million ($2.2 million in 2010-11).

Expenses incurred on behalf of government: New Treasury Board accounting standards require expenses incurred on behalf of government be backed out of the Consolidated Statement of Operations and Departmental Net Financial Position since they should not be considered part of the department's net cost of operations. $1.2 million of expenses (primarily salary) were incurred under the NRC-IRAP TPC program, which NRC administers on behalf of Industry Canada ($1.1 million in 2010-11); these are partially offset by a $108 thousand decrease in NRC's allowance for doubtful accounts and write-offs ($64 thousand increase in 2010-11) related to this program.

Revenues

NRC's total revenues were $170.9 million in 2011-12, a slight increase from the $168.1 million earned in 2010-11. The following chart provides a breakdown of the revenue components.



Gross revenue (including revenue earned on behalf of government) of $172.4 million was $12.4 million higher than the amount forecast in NRC's Future Oriented Financial Statements reported in the 2010-11 RPP. This positive result reflects the NRC strategy to increase its external revenue funding.

Services of a Non-Regulatory Nature: In 2011-12, 35% or $59.9 million (32% or $54.3 million in 2010-11) of NRC revenues were generated from services of a non-regulatory nature, which primarily consists of research services provided directly to industry and academic clients. The $5.6 million increase comes from increases at many institutes, most significantly a $3.8 million increase at NRC's Institute for Aerospace Research (NRC-IAR) due to high demand from Canadian aerospace manufactures associated with the development of new aircraft, as well as significant increases at NRC's Canadian Hydraulics Centre (NRC-CHC), Institute for Ocean Technology (NRC-IOT) and Institute for Research in Construction (NRC-IRC).

Rights and Privileges: Royalty revenue is earned from companies that license the rights to use NRC technologies. Royalties are typically based on a percentage of the licensee's sales. In 2011-12, NRC generated $8.6 million in royalties, down from $9.6 million in 2010-11. The largest contributor of revenue earned from this income stream is NRC's Institute for Biological Sciences (NRC-IBS) which generated $3.4 million in royalties.

Sales of Goods and Information Products: As part of its goal to disseminate scientific and technical information of importance to industry, NRC has publications and certified reference materials that it sells to clients. Total sales of goods and information products totalled $5.2 million in 2011-12, as compared to $4.6 million in 2010-11. The largest component of revenue derived from the sale of goods and information products are sales of codes, most significantly National Model Building Codes by NRC's Institute for Research in Construction (NRC-IRC).

Lease and Use of Property: Facilitating access to NRC researchers and facilities is an important part of technology transfer at NRC. To this end, NRC provides laboratory space to companies on a commercial basis, often as part of a collaboration or technology transfer agreement. Revenue from lease and use of property amounted to $5 million in 2011-12, compared to $4.6 million in 2010-11, demonstrating NRC's ability to continuously attract external stakeholders to utilize NRC facilities, laboratories and research equipment.

Financial Arrangements with Other Government Departments and Agencies: NRC undertakes research and administers funding on behalf of other federal government departments through NRC programs. The incremental costs associated with this work are reimbursed to NRC. In 2011-12, the amount of work undertaken for other government departments was significant, totalling $63.8 million, an increase of $7 million from the $56.8 million earned in 2010-11. As part of NRC's increased focus on new revenue generation opportunities, many institutes saw increases in financial arrangement revenue, including a $2.6 million increase at NRC's Centre for Surface Transportation Technology (NRC-CSTT) and a $1.5 million increase at NRC-IRC.

Revenues from Joint Project and Cost Sharing Agreements: NRC receives income in the course of collaborative research projects that involve cost sharing arrangements for work that is likely to lead to new expertise or technology. In 2011-12, collaborative funding across all sectors at NRC earned $24.2 million ($32.6 million in 2010-11). The decrease reflects adjustments made in 2010-11 to properly reflect deferred revenue balances on the Consolidated Statement of Financial Position, some of which related to revenue which should have been recognized in previous years.

Revenue from joint research projects are recognized in accordance with the level of progress toward completing project deliverables.

Revenue earned on behalf of government: New Treasury Board accounting standards require revenues earned on behalf of government be backed out of the Consolidated Statement of Operations and Departmental Net Financial Position since they should not be considered part of the department's net cost of operations. This includes $1.2 million of financial arrangement revenue provided by Industry Canada for the NRC-IRAP TPC program, which NRC administers on their behalf ($1.1 million in 2010-11), and $255 thousand of interest revenues ($309 thousand in 2010-11) on outstanding receivables.

NRC · CNRC

Consolidated Financial Statements

National Research Council Canada

March 31, 2012

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the National Research Council of Canada and the Minister of Industry

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the National Research Council of Canada, which comprise the consolidated statement of financial position as at 31 March 2012, and the consolidated statement of operations and departmental net financial position, consolidated statement of change in departmental net debt and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

.../2

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

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Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the National Research Council of Canada as at 31 March 2012, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the National Research Council of Canada that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *National Research Council Act* and regulations and the by-laws of the National Research Council of Canada.

Terrance DeJong, CA
Assistant Auditor General
for the Auditor General of Canada

2 August 2012
Ottawa, Canada

National Research Council Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2012, and all information contained in these statements rests with the management of the National Research Council Canada (NRC). These consolidated financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these consolidated financial statements. Some of the information in the consolidated financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of NRC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in *NRC's Departmental Performance Report*, is consistent with these consolidated financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its consolidated financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout NRC; and through conducting an annual assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess the effectiveness of associated key controls, and to make any necessary adjustments.

A risk based assessment of the system of ICFR for the year ended March 31, 2012 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of NRC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of NRC's operations, and by the NRC Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the consolidated financial statements to the President.

The Office of the Auditor General, the independent auditor for the Government of Canada, has expressed an opinion on the fair presentation of the consolidated financial statements of NRC which does not include an audit opinion on the annual assessment of the effectiveness of NRC's internal controls over financial reporting.

John R. McDougall, P.Eng. President	Michel Piché, M.P.A., CMA, CIA Vice-President, Corporate Management and Chief Financial Officer

Ottawa, Canada
August 2, 2012

National Research Council Canada
Consolidated Statement of Financial Position
As at March 31

(in thousands of dollars)	2012	2011 Restated (Note 4)
Liabilities		
Accounts payable and accrued liabilities (Note 5)	104,920	139,443
Vacation pay and compensatory leave	35,112	38,695
Deferred revenue (Note 6)	60,701	63,824
Lease obligation for tangible capital assets (Note 7)	146	213
Employee future benefits (Note 8)	68,332	71,099
Total gross liabilities	**269,211**	**313,274**
Liabilities held on behalf of Government		
Accounts payable and accrued liabilities (Note 5)	(2,115)	(2,132)
Total liabilities held on behalf of Government	**(2,115)**	**(2,132)**
Total net liabilities	**267,096**	**311,142**
Financial Assets		
Due from the Consolidated Revenue Fund	183,826	197,300
Accounts receivable and advances (Note 9)	28,873	25,865
Inventory for resale	3,261	2,192
Cash and investments (Note 10)	2,784	2,478
Total gross financial assets	**218,744**	**227,835**
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	(2,418)	(2,325)
Total financial assets held on behalf of Government	**(2,418)**	**(2,325)**
Total net financial assets	**216,326**	**225,510**
Departmental net debt	**50,770**	**85,632**
Non-Financial Assets		
Prepaid expenses	11,670	11,498
Endowment fund investment (Note 11)	4,724	4,631
Inventory for consumption	4,103	4,757
Tangible capital assets (Note 12)	555,478	579,509
Total non-financial assets	**575,975**	**600,395**
Departmental net financial position	**525,205**	**514,763**

Contractual obligations (Note 13)
Contingent liabilities (Note 14)

The accompanying notes form an integral part of these consolidated financial statements.

John R. McDougall, P.Eng.
President

Michel Piché, M.P.A., CMA, CIA
Vice-President, Corporate Management
and Chief Financial Officer

National Research Council Canada
Consolidated Statement of Operations and Departmental Net Financial Position
For the Year Ended March 31

(in thousands of dollars)	**2012** Planned Results	**2012**	**2011** Restated (Note 4)
Expenses			
Manufacturing Technologies	180,898	174,360	177,531
Information and Communication Technologies (ICT) and Emerging Technologies	89,438	89,147	92,599
Industrial Research Assistance	146,977	150,455	288,983
Health and Life Sciences Technologies	135,216	135,752	141,336
Energy and Environmental Technologies	55,505	51,034	53,631
National Science and Technology Infrastructure	106,163	104,457	104,093
Scientific, Technical and Medical Information	31,463	24,972	27,013
Internal Services	114,310	118,558	116,029
Expenses incurred on behalf of Government	-	(1,092)	(1,159)
Total Expenses	**859,970**	**847,643**	**1,000,056**
Revenues			
Sales of goods and services			
Services of non-regulatory nature and other fees and charges	59,450	59,885	54,268
Rights and privileges	9,600	8,561	9,649
Sales of goods and information products	5,600	5,171	4,630
Lease and use of property	4,250	4,987	4,629
Financial arrangements with other government departments and agencies	53,000	63,795	56,778
Revenues from joint project and cost sharing	25,102	24,244	32,569
Other	450	3,177	4,305
Lease inducement revenue	2,548	2,548	2,548
Gain on sale of equity investment	-	-	133
Revenues earned on behalf of Government	-	(1,455)	(1,404)
Total Revenues	**160,000**	**170,913**	**168,105**
Net cost from continuing operations	**699,970**	**676,730**	**831,951**
Discontinued operations (Note 19)			
Expenses	-	-	7,897
Revenue	-	-	7,174
Net cost of discontinued operations	**-**	**-**	**723**
Net cost of operations before government funding and transfers	**699,970**	**676,730**	**832,674**

National Research Council Canada
Consolidated Statement of Operations and Departmental Net Financial Position (continued)
For the Year Ended March 31

(in thousands of dollars)	2012 Planned Results	2012	2011 Restated (Note 4)
Net cost of operations before government funding and transfers	**699,970**	**676,730**	**832,674**
Government funding and transfers			
Net cash provided by Government	(638,437)	(657,872)	(825,080)
Change in due from the Consolidated Revenue Fund	-	13,474	126
Services provided without charge by other government departments and agencies (Note 15)	(32,060)	(40,710)	(33,369)
Transfer to other government department (Note 16)	-	(2,064)	-
Net cost of operations after government funding and transfers	**29,473**	**(10,442)**	**(25,649)**
Departmental net financial position - Beginning of year	**514,763**	**514,763**	**489,114**
Departmental net financial position - End of year	**485,290**	**525,205**	**514,763**

Segmented Information (Note 17)

The accompanying notes form an integral part of these consolidated financial statements.

National Research Council Canada
Consolidated Statement of Change in Departmental Net Debt
For the Year Ended March 31

(in thousands of dollars)	**2012** Planned Results	**2012**	**2011** Restated (Note 4)
Net cost of operations after government funding and transfers	**29,473**	**(10,442)**	**(25,649)**
Change due to tangible capital assets			
Acquisition of tangible capital assets	41,192	45,089	62,350
Amortization of tangible capital assets	(69,815)	(66,012)	(67,960)
Proceeds from disposal of tangible capital assets	-	(695)	(384)
Net loss on disposal capital assets including adjustments	(850)	(1,435)	(1,247)
Transfer to other government department (Note 16)	-	(1,518)	-
Other	-	540	926
Total change due to tangible capital assets	**(29,473)**	**(24,031)**	**(6,315)**
Change due to inventories for consumption	**-**	**(654)**	**1,348**
Change due to endowment fund investments	**-**	**93**	**116**
Change due to prepaid expenses	**-**	**172**	**1,154**
Net decrease in departmental net debt	**-**	**(34,862)**	**(29,346)**
Departmental net debt - Beginning of year	**85,632**	**85,632**	**114,978**
Departmental net debt - End of year	**85,632**	**50,770**	**85,632**

The accompanying notes form an integral part of these consolidated financial statements.

National Research Council Canada
Consolidated Statement of Cash Flow
For the Year Ended March 31

(in thousands of dollars)	2012	2011 Restated (Note 4)
Operating Activities		
Net cost of operations before government funding and transfers	676,730	832,674
Non-cash items		
Amortization of tangible capital assets	(66,012)	(67,960)
Transfer to other government department (Note 16)	(3,582)	-
Gain on sale of equity investments	-	133
Net loss on disposal of tangible capital assets	(1,435)	(1,247)
Services provided without charge by other government departments and agencies (Note 15)	(40,710)	(33,369)
Other	540	925
Variations in Statement of Financial Position		
Increase in accounts receivable and advances	2,915	4,407
Increase (decrease) in inventory for resale	1,069	(809)
Increase in cash and investments	306	493
Increase in prepaid expenses	172	1,154
Increase in endowment fund investments	93	116
(Decrease) increase in inventory for consumption	(654)	1,348
Decrease in accounts payable and accrued liabilities	34,506	7,172
Decrease in vacation pay and compensatory leave	3,583	4,499
Decrease in deferred revenue	3,123	15,742
Decrease in lease obligation for tangible capital assets	67	64
Decrease (increase) in employee future benefits	2,767	(2,095)
Cash used in operating activities (including transferred operations and discontinued operations)	**613,478**	**763,247**
Capital Investing Activities		
Acquisitions of tangible capital assets	45,089	62,350
Proceeds from disposal of tangible capital assets	(695)	(384)
Cash used in capital investing activities	**44,394**	**61,966**
Investing Activities		
Proceeds from sale of equity investments	-	(133)
Cash provided in investing activities	**-**	**(133)**
Net cash provided by Government of Canada	**657,872**	**825,080**

The accompanying notes form an integral part of these consolidated financial statements.

National Research Council Canada

Notes to Consolidated Financial Statements

For the Year Ended March 31, 2012

1. Authority and Objectives

The National Research Council Canada (NRC) exists under the *National Research Council Act (NRC Act)* and is a departmental corporation named in Schedule II of the *Financial Administration Act*. The mission of NRC is to work with clients and partners to provide strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

In delivering its mandate, NRC reports under the following program activities:

- Manufacturing Technologies: Multidisciplinary research and development in consultation with industry, universities, government departments and other key innovation players to improve the global competitiveness of Canadian industry by transforming knowledge and innovation into real economic value and by transferring technologies into industrial solutions for the marketplace.
- Information and Communication Technologies (ICT) and Emerging Technologies: Mobilizes, collaborates and partners with key university, government and private sector players and forms major research collaborations to develop integrated research solutions in the areas of information and communications technologies and emerging technologies.
- Industrial Research Assistance: Provides a range of technical and business-oriented advisory services, as well as financial support for small and medium-sized Canadian businesses engaged in research and development of technological innovations to augment their capacity and capability to innovate, commercialise and generate significant economic activity for Canadian industry.
- Health and Life Science Technologies: Mobilizes and partners with key university, government and private sector players and forms major research collaborations to develop integrated research solutions for complex health and related life science issues.
- Energy and Environmental Technologies: In partnership with other government departments, universities and industry, brings together the knowledge and expertise needed to make an impact on areas of critical importance to Canada in environmental and sustainable energy.
- National Science and Technology Infrastructure: Manages national science and engineering facilities and infrastructure critical to research, development and innovation by Canadian scientific and technological communities.
- Scientific, Technical and Medical Information: Operates and maintains the national science library, specifically holding the national collection of scientific, technical and medical information, to facilitate knowledge discovery, cross discipline research, innovation and commercialisation.
- Internal Services: Groups of activities and resources administered to support the needs of programs and other corporate obligations of the organization. Includes only those activities and resources that apply across the organization and not those provided specifically to a program.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

NRC is financed mainly by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to NRC do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the *2011-12 Report on Plans and Priorities*.

b) Consolidation

These consolidated financial statements include both NRC and its portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT). CFHT meets the definition of a government partnership under Canadian public sector accounting standards, which requires that its results be proportionally consolidated within those of NRC. All inter-organizational balances and transactions are eliminated as part of the consolidation process. CHFT has audited financial statements as at December 31, 2011 which have been proportionally consolidated with NRC's March 31 financial statements.

c) Net cash provided by Government

NRC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by NRC is deposited to the CRF and all cash disbursements made by NRC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments (including agencies) of the Government.

d) Amounts due from or to the CRF

Amounts due from or to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that NRC is entitled to draw from the CRF without further authorities to discharge its liabilities.

e) Revenues

Revenues are recognized in the year in which the underlying transaction or event occurred that gave rise to revenue as follows:

- Services of non-regulatory nature and other fees and charges, Revenues from joint project and cost sharing: revenues are recognized as services are provided, using the percentage-of-completion method.
- Rights and privileges: revenues are recognized over the licence period.
- Sales of goods and information products: revenue is recognized when goods or information products are delivered to the client.
- Lease and use of property: revenue is recognized in the period in which the lease or use of property relates to.
- Financial arrangements with other government departments and agencies: revenue is recognized in the period in which the goods are delivered or services provided.
- Contributions of leased tangible capital assets are deferred and amortized as Lease inducement revenue on the same basis as the related depreciable tangible capital assets.

Funds received for which NRC has an obligation to other parties for the provision of goods, services or the use of assets in the future are recorded as deferred revenue.

Receipts are deposited to the CRF. Under the *NRC Act*, money received by NRC through the conduct of its operations is respendable in the current or in subsequent years.

Revenues that are non-respendable are not available to discharge NRC's liabilities. While the President is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

f) Expenses

- Expenses are recorded on the accrual basis.
- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the consolidated financial statements.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments and agencies for accommodation, employer contributions to the health and dental insurance plans, audit of NRC’s consolidated financial statements, legal services, workers' compensation and the services related to the email, data centre and network services and the email, data centre and network support unit are recorded as operating expenses at their estimated cost.

g) Employee future benefits

i) Pension Benefits

Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government of Canada. NRC’s contributions to the Plan are charged to expenses in the year incurred and represent NRC’s total obligation to the Plan. NRC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

ii) Severance Benefits

Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

h) Accounts receivable

Accounts receivable are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables where recovery is considered uncertain.

i) Conditionally repayable contributions

Conditionally repayable contributions are contributions that become repayable in part or in whole if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Consolidated Statement of Financial Position until the conditions specified in the agreement come into effect, at which time they are recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

j) Contingent liabilities

Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the consolidated financial statements.

k) Environmental liabilities

Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when NRC becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of NRC's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the consolidated financial statements.

l) Inventories

Inventory consists of parts, materials and supplies held for future program delivery as well as inventory for resale. Inventory for resale and for consumption is recorded at the lower of cost (using the average cost method) or net realizable value. The cost is charged to operations in the year in which the items are sold or used.

m) Equity investments

Equity investments include shares in public and privately-held companies. Equity investments are typically obtained as a result of debt settlement negotiations or as a result of non-monetary transactions (where financial assistance at better-than-market conditions was provided to firms through access to intellectual property, equipment and incubation space in laboratories). If the estimates of the non-monetary transactions cannot be determined, the equity investments are initially recorded at a nominal value. Otherwise they are initially recorded at fair value based on market prices. If the fair value of equity investments becomes lower than the book value and this decline in value is considered to be other than temporary, the equity investments are written down to fair value.

n) Endowment fund investments

Endowments consist of donations subject to externally imposed restrictions stipulating that the resources be maintained permanently. Income from the investment of endowments may only be used for the purposes established by the donors.

Endowments are recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Funds received for endowments are invested in bonds and are carried at amortized cost. The premium or discount determined at the time of acquisition is amortized until the security's maturity. Fair value of bonds is based on market prices.

o) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at year end. Gains and losses resulting from foreign currency transactions are included in the applicable line on the Consolidated Statement of Operations and Departmental Net Financial Position according to the activities to which they relate. Net gains and losses relating to the sale of goods or services denominated in a foreign currency are included in revenues. Net gains and losses relating to the purchase of goods or services denominated in a foreign currency are included in expenses. Contractual obligations may contain foreign currencies that are translated into Canadian dollar equivalents using the rate of exchange in effect at March 31, 2012.

p) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of $5,000 or more are recorded at their acquisition cost. Contributed tangible capital assets are recorded at market value at the date of contribution. NRC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value. Assets acquired under tangible capital leases are initially recorded at the lower of the present value of the minimum lease payments at the inception of the lease or fair value. Tangible capital assets held for sale are recorded at the lower of their carrying value or fair value less cost to sell and no amortization is recorded.

Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset Class	Amortization Period
Land	Not applicable
Buildings and facilities	25 years
Works and infrastructure	25 - 40 years
Machinery, equipment and furniture	10 years
Informatics equipment	5 years
Informatics software	5 years
Vehicles	7 years
Aircraft	15 - 30 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Leased tangible capital assets	In accordance with asset class

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

Where NRC enters into land leases at a nominal value, the transaction is considered as a non-monetary transaction and is recorded at fair value. Fair value of the transaction is based on market prices. If the estimates of the non-monetary transactions cannot be determined, the amount of the transaction is recorded at a nominal value.

The tangible capital assets from the CFHT Corporation are stated at cost. Betterments are charged to tangible capital assets while maintenance and repairs that do not increase the service potention of the asset are charged to expense. Amortization is calculated on the straight-line method over the estimated useful lives of the assets ranging from 4 to 50 years.

q) Measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are percentage of completion on revenue from the provision of services, contingent liabilities, contaminated site liabilities, the liability for employee severance benefits, the allowance for doubtful accounts, the fair value of non-monetary transactions related to leased tangible capital assets and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the consolidated financial statements in the year they become known.

r) Asset retirement obligations

Liabilities are recognized for statutory, contractual or legal obligations, when incurred, associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

3. Parliamentary Authorities

NRC receives most of its funding through annual parliamentary authorities. Items recognized in the Consolidated Statement of Operations and the Departmental Net Financial Position and the Consolidated Statement of Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, NRC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to current year authorities used

(in thousands of dollars)	**2012**	**2011** Restated (Note 4)
Net Cost of Operations before government funding and transfers	676,730	832,674
Adjustments for items affecting net cost of operations but not affecting authorities (including transferred operations and discontinued operations):		
Revenues	170,913	175,279
Amortization of tangible capital assets	(66,012)	(67,960)
Financial arrangements with other government departments and agencies	(62,595)	(56,883)
Services provided without charge by other government departments and agencies (Note 15)	(40,710)	(33,369)
Specified purpose accounts expenses	(22,533)	(20,856)
(Increase) decrease in salary accrual	(9,179)	4,532
Refund of previous year's expenditures	3,680	3,180
Decrease in vacation pay and compensatory leave	2,811	4,501
Cost of goods sold	(2,495)	(1,732)
Loss on disposal of tangible capital assets	(1,435)	(1,247)
Decrease (increase) in employee future benefits	1,339	(2,095)
(Increase) decrease in contaminated sites liability	(600)	203
Other	430	1,236
Decrease (increase) in accrued liability not charged to authorities	415	(431)
Increase (decrease) in inventory	32	(430)
Bad debt expense	2	(72)
Decrease in litigation claim expense accrual	-	375
Total items affecting net cost of operations but not affecting authorities (including transferred operations and discontinued operations)	(25,937)	4,231
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	44,550	60,801
Inventory purchases	2,878	2,777
Increase in prepaid expenses	172	1,154
Decrease in lease obligations for tangible capital assets	67	64
Contaminated sites remediation reducing the liability	43	1,597
Total items not affecting net cost of operations but affecting authorities	47,710	66,393
Current year authorities used	**698,503**	**903,298**

b) Authorities provided and used

(in thousands of dollars)	**2012**	**2011**
Authorities provided:		
Vote 60 – Operating expenditures	405,687	427,947
Vote 65 – Capital expenditures	42,265	53,192
Vote 70 – Grants and contributions	165,275	294,888
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the *National Research Council Act*	146,959	123,255
Contributions to employee benefit plans	59,766	63,681
Proceeds from the disposal of surplus Crown assets	964	594
Collection agency fees	18	25
Loss on foreign exchange	3	-
Less:		
Revenues available for use in future years	(96,728)	(48,316)
Lapsed authorities:		
Frozen allotments - Capital	(6,942)	(3,198)
Frozen allotments - Operating	(1,489)	(4,327)
Frozen allotments - Grants and Contributions	-	(410)
Unexpended authorities - Grants and Contributions	(17,275)	(3,581)
Unexpended authorities - Capital	-	(328)
Unexpended authorities - Operating	-	(124)
Current year authorities used	**698,503**	**903,298**

4. Accounting Changes

a) Change in accounting policy

During 2011-2012, amendments were made to *Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to NRC's consolidated financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

Net debt (calculated as liabilities less financial assets) is now presented in the Consolidated Statement of Financial Position. Accompanying this change, NRC now presents a Consolidated Statement of Change in Net Debt and no longer presents a Statement of Equity.

Revenue and related accounts receivable are now presented net of non-respendable amounts in the Consolidated Statement of Operations and Departmental Net Financial Position and Consolidated Statement of Financial Position. The effect of this change was to increase the net cost of operations after government funding and transfers by $1,455,000 for 2012 ($1,404,000 for 2011) and decrease total financial assets by $2,418,000 for 2012 ($2,325,000 for 2011).

Government funding and transfers, as well as the credit related to services provided without charge by other government departments, are now recognized in the Consolidated Statement of Operations and Departmental Net Financial Position below "Net cost of operations before government funding and transfers". In previous years, NRC recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by $687,172,000 for 2012 ($858,324,000 for 2011).

b) Correction of an error relating to prior year financial statements

In 2011-2012, NRC determined that its relationship with the Canada-France-Hawaii Telescope Corporation (CFHT) constituted a government partnership for accounting purposes which should be proportionately consolidated in NRC's financial statements. The effect of this change was to increase the net cost of operations after government funding and transfers by $113,000 ($860,000 for 2011), increase the gross liabilities by $321,000 ($369,000 in 2011), increase the gross financial assets by $2,614,000 ($2,065,000 in 2011) and increase the non-financial assets by $5,303,000 ($5,786,000 in 2011). In addition, this correction decreased the departmental net debt by $2,293,000 ($1,696,000 in 2011).

The effects of both accounting changes on comparative figures are illustrated in the table below.

(in thousands of dollars)	**2011** As previously stated	Effect of change TBAS (a)	Effect of change CFHT (b)	**2011** Restated
Consolidated Statement of Financial Position				
Total gross liabilities	312,905	-	369	313,274
Liabilities held on behalf of Government	-	(2,132)	-	(2,132)
Total gross financial assets	225,770	-	2,065	227,835
Assets held on behalf of Government	-	(2,325)	-	(2,325)
Total non-financial assets	594,609	-	5,786	600,395
Departmental Financial position	507,474	(193)	7,482	514,763
Consolidated Statement of Operations and Departmental Net Financial Position				
Revenues	176,959	(1,404)	(276)	175,279
Expenses	1,008,528	(1,159)	584	1,007,953
Government funding and transfers				
Net cash provided by Government	-	825,081	-	825,081
Change in due from Consolidated Revenue Fund	-	(126)	-	(126)
Services provided without charge by other government departments	-	33,369	-	33,369

5. Accounts Payable and Accrued Liabilities

The following table presents details of the NRC's accounts payable and accrued liabilities:

(in thousands of dollars)	**2012**	**2011** Restated (Note 4)
Suppliers and contributions payable	74,275	108,612
Payable to other government departments and agencies (Note 15)	12,436	21,271
Accrued wages and employee benefits	16,588	8,248
Contractor holdbacks	749	1,036
Contaminated site liabilities	637	80
Sales tax payable	119	84
CFHT - Accounts payable	116	112
Gross accounts payable and accrued liabilities	**104,920**	**139,443**
Accounts payable and accrued liabilities held on behalf of government (Note 15)	(2,115)	(2,132)
Total net accounts payable and accrued liabilities	**102,805**	**137,311**

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. Other savings measures have also been implemented by NRC. As a result, NRC has recorded at March 31, 2012 an obligation for termination benefits for an amount of $5,239,000 as part of accrued wages and employee benefits to reflect the estimated workforce adjustment costs.

6. Deferred Revenue

Deferred revenue represents the balances at year-end of unearned revenues stemming from amounts received from external parties that are restricted in order to fund the expenditures related to specific research projects and stemming from amounts received for fees prior to services being performed. Revenue is recognized in the period in which these expenditures are incurred or in which the service is performed. Details of the transactions related to this account are as follows:

(in thousands of dollars)	**2012**	**2011** Restated (Note 4)
Deferred revenue – contributions related to leased tangible capital assets		
Opening balance	48,042	50,590
Contributions recognized as revenue	(2,548)	(2,548)
Closing balance	45,494	48,042
Deferred revenue - goods and services and joint projects		
Opening balance	15,689	28,917
Funds received	31,095	26,551
Revenue recognized	(31,633)	(39,779)
Closing balance	15,151	15,689
CFHT - Deferred revenue	56	93
Total deferred revenue	**60,701**	**63,824**

7. Lease obligation for tangible capital assets

NRC has entered into an agreement to lease mechanical test equipment under capital lease with a cost of $336,000 and accumulated amortization of $56,000 as at March 31, 2012 ($336,000 and $22,400 respectively as at March 31, 2011). The obligations related to the upcoming years include the following:

(in thousands of dollars)	**2012**	**2011**
2012		80
2013	80	80
2014	80	80
Total future minimum lease payments	160	240
Less: imputed interest (6.11%)	(14)	(27)
Balance of obligations under leased tangible capital assets	**146**	**213**

8. Employee Future Benefits

Employees of NRC are entitled to specific benefits on or after termination or retirement, as provided for under various collective agreements or conditions of employment.

a) Pension benefits

Eligible NRC employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum of 35 years at a rate of 2% per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Quebec Pension Plans benefits and they are indexed to inflation.

Both the employees and NRC contribute to the cost of the Plan. The expense amounts to $42,958,202 as at March 31, 2012 ($44,702,888 in 2011), which represents approximately 1.8 times (1.9 times in 2011) the contributions by employees.

NRC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

b) Severance benefits

NRC provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

(in thousands of dollars)	**2012**	**2011**
Accrued benefit obligation, beginning of year	71,099	69,004
Transferred to other government department, effective November 15, 2011 (Note 16)	(1,428)	-
Subtotal	69,671	69,004
Expense for the year	7,660	9,845
Benefits paid during the year	(8,999)	(7,750)
Accrued benefit obligation, end of year	**68,332**	**71,099**

9. Accounts Receivable and Advances

The following table presents details of NRC's accounts receivable and advances balances:

(in thousands of dollars)	**2012**	**2011** Restated (Note 4)
Receivables from external parties	21,877	19,177
Receivables from other government departments and agencies (Note 15)	5,172	5,143
CHFT - Accounts receivable	174	59
Employee advances	32	36
	27,255	24,415
Less: allowance for doubtful accounts on receivables from external parties	(497)	(682)
	26,758	23,733
Repayable contributions	6,902	7,820
Less: allowance for uncollectibility	(4,787)	(5,688)
Net repayable contributions	2,115	2,132
Gross accounts receivable	**28,873**	**25,865**
Accounts receivable held on behalf of Government	(2,418)	(2,325)
Net accounts receivable	**26,455**	**23,540**

10. Cash and Investments

(in thousands of dollars)	**2012**	**2011** Restated (Note 4)
Cash and investments held by CFHT	2,440	2,006
Equity Investments	344	472
Cash and Investments	**2,784**	**2,478**

Equity investments include shares in three public companies (three in 2011) and one privately held company (two in 2011). These shares were obtained through debt settlement or non-monetary transactions. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the applicable company.

During the year, NRC sold shares for $355 ($132,679 in 2011) realizing a gain of $354 ($132,678 in 2011). In addition, NRC recorded an impairment reducing the value of its shares in two publically held companies by an amount of $127,688.

As at March 31, 2012, the book value of the equity investments was $344,263 ($471,953 in 2011). The market value of NRC's equity investments in public companies was $169,685 ($281,123 in 2011). The market value of the privately held companies is not determinable.

11. Endowment Fund Investments

This account was established pursuant to paragraph 5(1)(f) of the *National Research Council Act* to record the residue of the estate of the late H.L. Holmes. Up to two thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award on an annual basis. The award provides the opportunity to post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers.

(in thousands of dollars)	**2012**	**2011**
Restricted cash and investments, beginning of year	4,631	4,515
Net income from endowment	208	213
Awards granted	(115)	(97)
Restricted cash and investments, end of year	**4,724**	**4,631**

The portfolio for Endowment Fund Investments had an average effective return of 4.41% (4.70% in 2011) and an average term to maturity of 4.48 years as at March 31, 2012 (5.18 years as at March 31, 2011). The fair value of the endowment investments as at March 31, 2012 was $5,036,346 ($4,775,354 in 2011).

12. Tangible Capital Assets

(in thousands of dollars)

	Cost					Accumulated Amortization					Net Book Value	
Tangible capital asset class	**Opening balance**	**Acquisitions**	**Adjustments (1)**	**Disposals and write-offs**	**Closing balance**	**Opening balance**	**Amortization**	**Adjustments (1)**	**Disposals and write-offs**	**Closing balance**	**2012**	**2011** Restated (Note 4)
Land	9,879	-	-	-	9,879	-	-	-	-	-	9,879	9,879
Buildings and facilities	684,376	10,667	9,885	-	704,928	(408,335)	(20,154)	-	-	(428,489)	276,439	276,041
Works and infrastructure	21,792	1,231	1,903	-	24,926	(15,111)	(724)	-	-	(15,835)	9,091	6,681
Machinery, equipment and furniture	523,928	12,700	11,590	(22,447)	525,771	(355,589)	(34,508)	(52)	21,159	(368,990)	156,781	168,339
Informatics equipment	61,080	1,890	(1,962)	(9,529)	51,479	(49,378)	(4,343)	2,951	9,470	(41,300)	10,179	11,702
Informatics software	18,705	619	227	(1,153)	18,398	(11,957)	(2,236)	27	1,068	(13,098)	5,300	6,748
Vehicles	3,035	319	-	(303)	3,051	(2,381)	(156)	-	290	(2,247)	804	654
Aircraft	11,360	113	550	(20)	12,003	(9,984)	(70)	(453)	20	(10,487)	1,516	1,376
Leasehold improvements	12,857	1,240	3,319	-	17,416	(3,773)	(564)	-	-	(4,337)	13,079	9,084
Assets under construction	34,864	16,280	(29,640)	(170)	21,334	-	-	-	-	-	21,334	34,864
Leased tangible capital assets	64,036	-	-	-	64,036	(15,681)	(2,582)	-	-	(18,263)	45,773	48,355
CFHT - Tangible capital assets	21,157	30	-	(149)	21,038	(15,209)	(675)	-	149	(15,735)	5,303	5,786
Total	1,467,069	45,089	(4,128)	(33,771)	1,474,259	(887,398)	(66,012)	2,473	32,156	(918,781)	555,478	579,509

(1) Adjustments include assets under construction of $29,640,000 that were transferred to the other categories upon completion of the assets.

Effective November 15, 2011, NRC transferred informatics equipment and informatics software with a net book value of $201,210 to Shared Services Canada. In addition, NRC transferred informatics equipment, informatic software and other asset under construction with an acquisition value of $1,317,518 after November 15, 2011. This transfer is included in the adjustment columns (refer to Note 16 for further detail on the transfer).

When assets under construction are put into use during the fiscal year, they are transferred out of Assets under construction and into the capital asset class to which they relate, from which point on they are amortized as applicable.

Amortization expense for the year ended March 31, 2012 is $66,012,243 ($67,959,810 in 2011).

At March 31, 2012, NRC held nine land lease agreements (eight in 2011) for a nominal annual cost with universities. In these instances, NRC owns the building on the leased land. The fair value of the land leases for these non-monetary transactions could not be determined at the inception of the lease therefore they are recorded at a nominal value.

On March 21, 1996, NRC entered into a non-monetary transaction consisting of a lease agreement with the University of Western Ontario for the relocation of the Integrated Manufacturing Technologies Institute (IMTI), whereby leased property was provided to NRC for twenty-five years at a nominal cost of one dollar. Since the inception of the lease agreement, IMTI was restructured under NRC's Industrial Materials Institute (IMI) and NRC's Institute for Research in Construction (IRC). NRC has no obligations to the University of Western Ontario other than the relocation of the institute. The property was recorded as a leased tangible capital asset at its fair value of $10,000,000. The annual amortization of $400,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased property.

On May 23, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Alberta. NRC entered into a lease agreement with the University for the housing of NRC's National Institute for Nanotechnology (NINT), whereby leased property is provided to NRC at a nominal cost of one dollar per year. The lease provides a one year term with options to renew on ten sequential occasions, each of the first nine renewals to be for a period of five years and the tenth renewal for a period of four years. The building was recorded as a leased tangible capital asset at its fair value of $44,400,000. The annual amortization of $1,776,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

On September 1, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Prince Edward Island. NRC entered into a lease agreement with the University for the housing of NRC's Institute for Nutrisciences and Health (INH), whereby leased property was provided to NRC at a nominal cost of one dollar per year. The lease provides a nineteen month term with renewal options for seven additional periods of five years, and one additional period of three years and five months (to August 31, 2046). The building was recorded as a leased tangible capital asset at its fair value of $9,300,000. The annual amortization of $372,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

13. Contractual Obligations

The nature of NRC's activities can result in some large multi-year contracts and obligations whereby NRC will be obligated to make future payments in order to carry out its transfer payment programs or when the services/goods are received. All transfer payments and significant operating contractual obligations (greater than $50,000) that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	**2013**	**2014**	**2015**	**2016**	**2017 and thereafter**	**Total**
Transfer payments	97,356	54,765	51,597	3,880	-	207,598
Operating contracts	18,055	1,599	228	-	-	19,882
Total	115,411	56,364	51,825	3,880	-	227,480

Transfer payments contractual obligations to CFHT as shown in Note 15c have been excluded from the future contractual obligation.

14. Contingent Liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into three categories as follows:

a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where NRC is obligated or likely to be obligated to incur such costs. For 2012, NRC has identified four sites (four sites in 2011) where such action is possible and for which a liability of $636,995 ($79,829 in 2011) has been recorded in accrued liabilities. The estimate has been prepared using current market rates and is based on the results of initial testing performed by NRC at suspect sites. One of the sites, for which a $600,000 liability is presently recorded, will be managed according to a remediation and risk management plan which includes potential additional remediation liability. Risk assessment work will take place in 2013 as part of this remediation plan which will provide the necessary information for NRC to update the liability estimate. NRC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by NRC in the year in which they become likely and are reasonably estimable.

b) Claims and litigation

Claims have been made against NRC in the normal course of operations. Legal proceedings for three claims were pending at March 31, 2012 (six in 2011). NRC has one claim that will likely result in a liability where the amount is undeterminable (nil in 2011), two claims that will unlikely result in a liability (five in 2011) and no claim where the outcome is undeterminable (one in 2011). Therefore, no liability has been recorded based on NRC's legal assessment of potential liability. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the consolidated financial statements.

c) Asset Retirement Obligations

As at March 31, 2012 NRC has recognized an asset retirement obligation of $265,000 ($253,000 in 2011) in the consolidated financial statements as a result of its legal obligation to retire storage tank systems for petroleum products and allied petroleum products. The undiscounted amount of expected future cash flows required to settle the asset retirement obligation is estimated at $443,000 ($452,000 in 2011). The liability for the expected future cash flows, as reflected in the consolidated financial statements, has been discounted at a weighted average of 3.81% (3.77% in 2011) based on the Government of Canada benchmark bonds. This obligation will be settled over the useful lives of the operating assets. The following table summarizes the changes in the asset retirement obligations:

(in thousands of dollars)	**2012**	**2011**
Asset retirement obligations, beginning of year	253	221
Accretion of asset retirement obligations	12	32
Asset retirement obligations, end of year	**265**	**253**

Other asset retirement obligations, such as the costs associated with the removal and disposal of asbestos and other designated substances located in NRC buildings have not been recognized in the consolidated financial statements due to the fact that they are subject to several uncertainties. NRC generally incurs the cost of removing and disposing regulated substances during major building renovations; consequently the timing and scope of these renovations cannot be reasonably estimated at this time and therefore fair values cannot be reasonably determined. Changes in these assumptions and uncertainties could materially affect NRC's assets and liabilities as well as the resulting amortization and accretion expenses related to the asset retirement obligation.

15. Related Party Transactions

NRC is related as a result of common ownership to all Government departments, agencies, and Crown corporations. NRC enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, NRC received common services which were obtained without charge from other government departments as disclosed below.

a) Common services provided without charge by other government departments and agencies

During the year, NRC received services without charge from other government departments and agencies. These services have been recognized in NRC's Consolidated Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	**2012**	**2011**
Employer's contributions to the health and dental insurance plans provided by Treasury Board	30,267	31,830
Email, data centre and network services and the email, data centre and network support unit provided by Shared Services Canada	8,667	-
Audit of NRC's consolidated financial statements provided by the Office of the Auditor General of Canada	850	614
Legal services provided by Justice Canada	483	486
Workers' compensation benefits provided by Human Resources and Skills Development Canada	273	287
Accommodation provided by Public Works and Government Services Canada	170	152
Total	**40,710**	**33,369**

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies, and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada are not included in NRC's Consolidated Statement of Operations and Departmental Net Financial Position.

The activities related to the email, data centre and network services unit and the email, data centre and network support unit were transferred to Shared Services Canada on November 15, 2011. The services provided after the transfer date are recognized without charge.

b) Other transactions with related parties

(in thousands of dollars)	**2012**	**2011**
		Restated (Note 4)
Accounts receivable from other government departments and agencies	5,172	5,143
Accounts payable to other government departments and agencies	10,321	19,139
Expenses - Other government departments and agencies	75,995	80,156
Revenues - Other government departments and agencies	64,537	57,886

Expenses and revenues disclosed in (b) exclude common services provided without charge, which are already disclosed in (a).

NRC has a related party relationship with the following non-federal government entity:

c) Canada-France-Hawaii Telescope Corporation

NRC was a founding member of the Canada-France-Hawaii Telescope Corporation (CFHT), a tax-exempt, not-for-profit organization established under Hawaii State law to design, construct, and operate a large optical telescope near the summit of Mauna Kea, Hawaii, USA, along with laboratories, equipment, and associated installations. The Corporation was established in 1974 by a Tripartite Agreement among the NRC, the Centre National de la Recherche Scientifique of France, and the University of Hawaii. NRC makes annual contributions to fund its 42.5% share of the cost of operations of the telescope and receives no direct benefit in return. However, as a result of NRC's contributions, Canada receives access to telescope observation hours for Canadian astronomers. As a founding member, NRC can appoint four of the ten members of the board of directors. CFHT is considered a government partnership for accounting purposes and its results are proportionally consolidated in these statements. In 2011-12, NRC contributed $3.5 million to CFHT ($3.7 million in 2010-11). These contributions are eliminated upon consolidation. CFHT's condensed financial information for the period ending December 31 is as follows:

(in thousands of dollars)	**December 31, 2011**	**December 31, 2010**
Total assets	19,047	18,862
Total liabilities	1,566	885
Total unrestricted net assets	17,481	17,977
Total revenues	8,576	8,560
Total expenses	9,619	9,719
Net operating results	(1,042)	(1,159)

NRC's future contractual obligations to CFHT are not included in the Transfer payment contractual obligations (Note 13) and are as follows:

(in thousands of dollars)	**2013**	**2014**	**2015**	**2016**	**2017 and thereafter**	**Total**
CFHT	3,098	3,118	3,196	3,276	2,503	15,191

16. Transfers to other government department

Effective November 15, 2011, NRC transferred responsibility for the email, data centre and network services unit and the email, data centre and network services support unit in accordance with Order-in-Council SI/2011-95 - *Order Transferring to Shared Services Canada the Control and Supervision of Certain Portions of the Federal Public Administration in each Department and Portion of the Federal Public Administration known as the Email, Data Centre and Network Services Unit and the Email, Data Centre and Network Services Support Unit*, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, NRC transferred the following assets and liabilities to Shared Services Canada on November 15, 2011 (in thousands of dollars):

Assets:	
Tangible capital assets (net book value) (Note 12)	201
Total assets transferred	201
Liabilities:	
Vacation pay and compensatory leave	757
Employee future benefits (Note 8)	1,428
Total liabilities transferred	2,185
Transfer to Shared Services Canada as at November 15, 2011	**(1,984)**

During the transition period, from November 16, 2011 to March 31, 2012, NRC continued to administer the transferred activities on behalf of Shared Services Canada. The administered activities incurred on behalf of SSC are as follows (in thousands of dollars):

Tangible capital assets transfers	1,317
Accounts payables and accrued liabilities	(1,397)
Transfer to Shared Services Canada as at November 15, 2011	(1,984)
Adjustment to the departmental net financial position	**(2,064)**

17. Segmented Information

Presentation by segment is based on NRC's program activity architecture (PAA). NRC allocates transactions over the PAA in accordance with stewardship principles, based on the Institutes, Branch or Program (IBP) that is responsible for managing the resource.

The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in Note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

(in thousands of dollars)	Manufacturing Technologies	ICT and Emerging Technologies	Industrial Research Assistance	Health and Life Sciences Technologies	Energy and Environmental Technologies	National Science and Technology Infrastructure	Scientific, Technical and Medical Information	Internal Services	**2012 Total**	**2011 Total Restated (Note 4)**
Expenses										
Salaries and employee benefits	111,088	51,847	50,822	89,945	33,558	35,398	12,382	70,451	455,491	459,163
Grants and contributions	-	-	91,170	-	-	51,876	-	561	143,607	285,300
Utilities, materials and supplies	22,509	10,533	1,325	15,370	4,962	3,702	10,512	9,168	78,081	81,066
Amortization	19,568	12,828	170	16,283	7,415	5,048	738	3,963	66,013	67,847
Professional and special services	8,170	8,110	1,907	5,666	2,552	2,825	993	11,457	41,680	44,291
Transportation and communication	4,494	2,224	3,032	2,328	1,067	2,245	264	2,974	18,628	19,493
Repairs and maintenance	4,632	1,673	282	3,646	1,065	771	171	5,186	17,426	17,457
Payments in lieu of taxes	1,213	456	-	428	77	-	-	12,888	15,062	13,999
Rentals	1,072	518	1,908	202	54	472	68	280	4,574	4,593
Cost of goods sold	382	-	-	251	-	1,688	-	174	2,495	1,702
Awards	339	585	1	1,352	79	6	(189)	122	2,295	2,673
Information	245	98	127	78	31	50	30	1,317	1,976	2,220
Net loss on disposal of capital assets	632	274	9	178	174	146	3	19	1,435	638
Other	16	1	(201)	25	-	230	-	84	155	359
Bad debts	-	-	(97)	-	-	-	-	(86)	(183)	414
Expenses incurred on behalf of Government	-	-	(1,200)	-	-	-	-	108	(1,092)	(1,159)
Total expenses	174,360	89,147	149,255	135,752	51,034	104,457	24,972	118,666	847,643	1,000,056
Revenues										
Sales of goods and services										
Services of non-regulatory nature and other fees and charges	31,101	3,077	-	6,763	7,708	7,193	118	3,925	59,885	54,268
Rights and privileges	1,183	1,667	-	4,901	500	310	-	-	8,561	9,649
Sales of goods and information products	3,794	-	-	869	-	502	-	6	5,171	4,630
Lease and use of property	608	983	-	2,614	260	3	-	519	4,987	4,629
	36,686	5,727	-	15,147	8,468	8,008	118	4,450	78,604	73,176
Financial arrangements with other government departments and agencies	35,365	5,059	1,731	3,446	11,948	1,316	4,403	527	63,795	56,778
Revenues from joint project and cost sharing	9,110	4,591	-	7,537	1,389	1,599	-	18	24,244	32,569
Other	36	2,059	207	(244)	3	582	86	448	3,177	4,305
Lease inducement revenue	-	-	-	-	-	-	-	2,548	2,548	2,548
Gain on sale of equity investment	-	-	-	-	-	-	-	-	-	133
Revenues earned on behalf of Government	-	-	(1,200)	-	-	-	-	(255)	(1,455)	(1,404)
Total revenues	81,197	17,436	738	25,886	21,808	11,505	4,607	7,736	170,913	168,105
Net cost from continuing operations	93,163	71,711	148,517	109,866	29,226	92,952	20,365	110,930	676,730	831,951

18. Financial Instruments

NRC's financial instruments consist of accounts receivable and advances, investments and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that NRC is not exposed to significant interest, currency or credit risk arising from these financial instruments. Unless otherwise disclosed in these consolidated financial statements, management estimates that the carrying values of the financial instruments approximate their fair value due to their impending maturity.

19. Discontinued Operations

On September 1, 2010, the Research Press program at NRC's Canada Institute for Scientific and Technical Information (NRC-CISTI) was privatized, and a newly formed non-profit organization, the Canadian Scientific Publishing, operated by previous employees of NRC-CISTI, was created. The consideration for the privatization was $1. As part of the privatization, NRC agreed to make cash contributions of up to $2 million in support of the creation of the non-profit organization for expenses incurred up to September 1, 2010. For the fiscal year ended March 31, 2011, total contributions were $1,609,935. This amount is included in Grants and Contribution in continued operations.

As part of the privatization on September 1, 2010, $1,093,759 of inventory was disposed of as there was no further use. The following assets were transferred at their net book value:

Assets	Net book value
Inventory	457,497
Informatics software	606,852
Informatics equipment	2,460

In addition, a non-competitive contract was initiated between NRC and the non-profit entity in the amount of $4 million which is included in revenue below, for the 7 month period September 1, 2010 to March 31, 2011. This was a non-cash transaction and reflects a decrease in the deferred revenue already received in relation to the fiscal year ended March 31, 2011.

The transfer and disposal of capital assets and the revenue received as part of the non-competitive contract are included in the segmented information summarized below.

The following segmented information has been removed from the Consolidate Statement of Operations and Departmental Net Financial Position and Note 17-Segmented Information as part of the discontinued operations. The net amount is disclosed on the Consolidated Statement of Operations and Departmental Net Financial Position as the Net Cost from Discontinued Operations:

	2012	2011
Expenses	-	7,897,000
Revenues	-	7,174,000
Net	-	723,000

In addition to the above information, NRC has entered into a non-competitive lease agreement with the non-profit organization for use of NRC premises of up to 1,810 square meters of space for five years at no charge for the first two years. The third year of the lease agreement is below fair market value ($349,000) with the fourth and fifth years expected to be at fair market value ($417,950 and $486,900 respectively). NRC has also leased the name "NRC – Research Press" to the non-profit organization.

20. Comparative Information

Comparative figures have been reclassified to conform to the current year's presentation.

Annex to the Statement of Management Responsibility including Internal Control over Financial Reporting (Unaudited)

For the fiscal year ended March 31, 2012

Summary of the assessment of effectiveness of the system of internal control over financial reporting and the action plan of the National Research Council (NRC) for fiscal year 2011-2012

Note to the reader (Unaudited)

With the new Treasury Board Policy on Internal Control, effective April 1, 2009, departments are required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plans to address any necessary adjustments, and to attach to their Statement of Management Responsibility, a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- Applicable laws, regulations and policies are complied with.

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The maintenance of an effective system of ICFR is an ongoing process designed to identify and assess key risks and the effectiveness of the associated key controls, and adjust them as required, as well as to monitor the system's performance in support of continuous improvement. As a result, the scope, pace and status of departmental assessments of the effectiveness of systems of ICFR will vary from one organization to the other based on risks and taking into account their unique circumstances.

1. Introduction

This document is attached to NRC's *Statement of Management Responsibility Including Internal Control over Financial Reporting* for the year ended March 31, 2012. As required by the Treasury Board Policy on Internal Control, effective April 1, 2009, this second published annex provides summary information on the measures taken by NRC to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by NRC as at March 31, 2012, including results and related action plans, as well as financial highlights pertinent to understanding NRC's unique control environment.

1.1 Authority, Mandate and Program Activities

Detailed information on NRC's authority, mandate and program activities can be found in its Departmental Performance Report and Report on Plans and Priorities.

1.2 Financial highlights

Financial information can be found in NRC's audited Financial Statements, Notes to Financial Statements and Financial Statements Discussion and Analysis for fiscal year 2011-2012. Information can also be found in the Public Accounts of Canada.

NRC has a strong regional presence. There is a centralized finance and accounting function which is located not only in headquarters but also in each Institute, Branch and Program across Canada that initiate, process and/or record a significant portion of the financial transactions.

NRC utilizes SIGMA, an SAP-based software as its primary financial system.

1.3 Audited financial statements

NRC has issued annual audited financial statements since fiscal year 2005-2006 and has consistently received an unqualified audit opinion from the Office of the Auditor General.

1.4 Service arrangements relevant to financial statements

NRC relies on other organizations for the processing of certain transactions that are recorded in its financial statements, such as:

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and the procurement of goods and services as per NRC's Delegation of Authority, provides cheque-issuing services, as well as some accommodations on behalf of NRC;
- Treasury Board Secretariat (TBS) provides NRC with information used to calculate accruals and allowances such as the accrued severance liability and the Employee Benefits Plan (EBP), and pays the employer's share of health and dental insurance premiums;
- Department of Justice provides legal services to NRC;
- The Office of the Auditor General (OAG) provides audit services to NRC.

- Human Resources and Skills Development Canada (HRSDC) pays the employer's portion of Workers' Compensation; and
- Shared Services Canada (SSC) was created on August 4, 2011 to consolidate, streamline and improve the government's information technology (IT) infrastructure services, specifically email, data centre and network services for 43 federal departments and agencies. Effective November 15, 2011, the responsibility for email, data centre and network services, including associated resources, was transferred from NRC to SSC. The administration and delivery of these services were shared during the 2011-2012 transition period while SSC was being established.

1.5 Material changes in fiscal year 2011-2012

The following significant changes within NRC that are relevant to the financial statements occurred in fiscal year 2011-2012:

- A new Chief Financial Officer (CFO) was appointed in July 2011;
- The government's new investment planning process was fully implemented at NRC effective April 1, 2011 to integrate prioritization planning and resource allocation;
- The Council Finance Committee was dissolved in November 2011 due to the overlap in responsibilities with the Departmental Audit Committee;
- NRC prepared a complete package of general purpose Future-oriented Financial Statements effective for the 2012-2013 Report on Plans and Priorities. These planned results are also reported in the 2011-2012 financial statements;
- NRC adopted the revised Treasury Board Accounting Standard 1.2: Departmental and Agency Financial Statements which is effective for NRC for the 2011-2012 fiscal year;
- NRC implemented the requirements of the new Treasury Board Accounting Standard 1.3 – Departmental and Agency Quarterly Financial Report effective April 1, 2011; and
- Implementation of a new strategic plan and program delivery approach for NRC began during the 2011-2012 fiscal year.

2. NRC's control environment relevant to ICFR

NRC recognizes the importance of senior management leadership in ensuring that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively and in ensuring that risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key positions, roles and responsibilities

Below are NRC's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

President – NRC's President, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the President is advised by the Departmental Audit Committee and the Senior Executive Committee.

Chief Financial Officer (CFO) – NRC's CFO reports directly to the President and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment.

Vice-Presidents – NRC's senior managers in charge of program delivery are responsible for maintaining and reviewing effectiveness of their system of ICFR falling within their mandate.

Chief Audit Executive (CAE) – NRC's CAE reports directly to the President and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

Departmental Audit Committee (DAC) – The DAC is an advisory committee that provides objective views on NRC's risk management, control and governance frameworks to the President. It is comprised of three external members and it reviews NRC's Corporate Risk Profile, NRC's audited financial statements and its system of internal control, including internal and external audit reports and the assessment and action plans related to the system of ICFR.

Senior Executive Committee (SEC) – As NRC's central decision-making body, SEC reviews, approves and monitors the Corporate Risk Profile and NRC's system of internal control, including the assessment and action plans related to the system of ICFR. It is comprised of the senior NRC managers and is chaired by the President.

Council – The role of Council is to provide advice to senior management on the operations and performance of NRC. The Council is chaired by the President.

Investment Management Committee – The main function of the committee is to recommend a prioritized list of projects for funding to the Senior Executive Committee.

Asset Management Boards – The main function of the three Asset Management Boards (Information Management (IM)/IT, Scientific Equipment & Laboratories, and Real Property & Fleet) is to review, analyze and prioritize project submissions and then to provide to the Investment Management Committee for endorsement.

Financial Oversight Committee – The main function of the committee is to review and provide overall advice on risk assessments related to account verification processes and to review quality assurance results, including internal control assessments.

Contract Review Committee – This committee is responsible for the review and/or challenge of proposed contracts to ensure that contracting policies are followed, that prudence and probity are being exercised, and that the contracting process is open, fair and competitive.

2.2 Key measures taken by NRC

NRC's control environment also includes a series of measures to equip its staff adequately to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. The most relevant measures are:

- An established governance structure and strategic direction through the Senior Executive Committee, supported by an advisory Council, and the Departmental Audit Committee;
- A Conflict of Interest Office under the President, that provides guidance and direction to employees and managers as set out in the NRC's Conflict of Interest Policy, TBS Values and Ethics Code for Public Service, Statement of Ethical Values and the NRC Values;
- A Strategic and Operational Planning Branch that coordinates and supports department-wide planning, including integrated business planning, risk management, environmental scanning, and preparation of the corporate risk profile approved by the Senior Executive Committee;
- A division within the Finance Branch and CFO portfolio dedicated to internal control over financial reporting;
- Training program and communications in core areas of financial management;
- Regularly updated delegation of financial authorities instruments;
- Policies and procedures regarding disciplinary measures in cases of delegation of authority infractions;
- Secure financial systems to achieve security and integrity of financial data processing, including restricted system access to administrative support based on authorizations and pre-defined roles, that limit access to specific job requirements and meet segregation of incompatible duties principles;
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR;
- A cascading certification process was introduced, in fiscal year 2005-2006, requiring accountable managers and executives to attest annually to the reliability of the financial information in their area of responsibility;
- A complete range of human resources, financial and contracting policies tailored to NRC's control environment, communicated to all levels and supported by formal training sessions;
- A multi-year risk-based internal audit plan;
- Transfer payment recipient risk management framework supported by a documented due diligence and authority based business process, mandatory training, and a continuous quality assurance review; and
- Security Guidelines related to the overall security program including elements of information and personnel security.

3. Assessment of NRC's system of ICFR

3.1 Assessment baseline

In support of the Policy on Internal Control, an effective system of ICFR aims to provide reasonable assurance that:

- Transactions are appropriately authorized;
- Financial records are properly maintained;
- Assets are safeguarded; and
- Applicable laws, regulations and policies are complied with.

This includes an assessment of the **design** and **operating effectiveness** of the system of ICFR leading to **ongoing monitoring** and continuous improvement of NRC's system of ICFR.

Design effectiveness means to ensure that key control points are identified, documented, in place and that they are aligned with the risks (i.e. controls are balanced with and proportionate to the risks they aim to mitigate), and that any required remediation is addressed. This includes the mapping of key processes and systems to the main accounts.

Operating effectiveness means that the application of key controls has been tested over a defined period and that any required remediation is addressed. Such testing covers all control levels which include, entity, general IT and business process controls.

Ongoing monitoring means that a systematic, integrated approach to monitoring is in place in support of continuous improvement, including periodic risk-based assessments and timely remediation.

3.2 Scope of NRC assessment during fiscal year 2011-2012

As reported in the Annex for fiscal year ended March 31, 2011, NRC has taken the measures to assess its system of ICFR by documenting and testing the design and operating effectiveness of its key entity level controls, general IT controls and business process controls as well as by identifying required remedial actions.

During fiscal year 2011-2012, NRC focused on the development of a three year risk-based rotational assessment plan and an assessment framework in support of its ongoing monitoring program of the system of ICFR. This framework identifies the key processes and controls to be tested on a cyclical basis including the selection of the test period, as well as the method and frequency of testing. The following depicts a summary of NRC's rotational ICFR assessment plan:

Control Level	Assessment				
	Frequency	Last Assessment	2011-12	2012-13	2013-14
Entity	Every 2 years	FY2010-11		√	
General IT	Every 2 years	FY2010-11		√	
Business process	Depends on risk assessment results of each sub-process (Note 1)	FY2010-11	√	√	√

Note 1: A risk assessment based on pre-defined criteria was performed for each identified business sub-process. The frequency and the level of the assessment actions varies for each business sub-process based on the resulting risk rating. The combination of some or all of the following assessment actions are taken into account for each business sub-process to ensure full coverage on a three year rotational basis:

- Documentation review, update and validation with process owners;
- Perform walkthrough; and
- Key controls assessment.

The following table summarizes NRC's approach to the ICFR assessment at the business process level by using 6 factors, on a scale of 1 (low) to 5 (high), to assess overall risk: strength of general IT controls, strength of entity level controls, inherent risk, strength of controls, significance and public visibility:

Overall Risk Rating	Assessment Frequency		
	Documentation Updated & Validated with Process Owners	Walkthrough Performed	Key Controls Assessed
Low	Every 3 years where significant & public visibility are high	Every 3 years where significant & public visibility are high	Every 3 years where significant & public visibility are high
Medium-low	Yearly	Every 2 years	Every 3 years
Medium	Yearly	Yearly	Every 2 years

Overall Risk Rating	Assessment Frequency		
	Documentation Updated & Validated with Process Owners	Walkthrough Performed	Key Controls Assessed
Medium-high	Yearly	Yearly	Yearly
High	Yearly	Yearly	Yearly

As reported in NRC's fiscal year 2010-11 Annex, revenue testing results validated weaknesses at the design effectiveness assessment step. A revenue management remediation action plan was established to address the identified weaknesses: a need for increased training and communication of certain elements of revenue management practices such as properly documented costing and pricing decisions, improvement in project management practices, and greater clarity in the area of revenue recognition practices. As remediation actions are planned for implementation in fiscal year 2012-2013, certain revenue management business sub-processes were excluded from the fiscal year 2011-2012 assessment plan. In addition to performing the assessment of its system of ICFR per the rotational assessment plan, NRC also monitored the remedial actions taken in response to the findings of prior year assessments and continued to engage the Departmental Audit Committee on assessment plans, results and progress on a regular basis.

4. NRC's assessment results

As at fiscal year ended March 31, 2012, NRC executed the assessment of its system of ICFR per the approved risk-based rotational plan, and is in the process of implementing remediation actions as required.

The assessment results for fiscal year 2011-2012 identified that the system of internal control over financial reporting was effective in general. Improvement opportunities were found with regard to the operating effectiveness of financial controls in petty cash, capital assets and transfer payment processes. All deficiencies were communicated to management and to the responsible parties and necessary remediation measures have been or are currently being implemented.

This past fiscal year has clearly demonstrated that NRC's decision to implement ongoing monitoring is key to ensure continuous improvement and timely remediation if required.

5. NRC's action plan

The senior management at NRC is committed to sustaining and continuously improving its sound framework of effective ICFR, including ongoing monitoring to ensure that the key controls meet the expectations of management and stakeholders and appropriately mitigate associated risks.

5.1 Progress as of March 31, 2012

NRC's goal to continuously monitor its system of ICFR was achieved during the fiscal year, as planned. A risk-based rotational assessment plan was developed and executed which resulted in a successful assessment of internal controls for key business processes. Remedial items will be assessed as rotational testing continues.

Remediation action taken during fiscal year 2011-2012 has been aligned in terms of priorities following an assessment of risk. NRC has conducted or is planning the following work to address the adjustments identified during the fiscal year 2011-2012 assessment:

- Communication of petty cash policy and procedure requirements and responsibilities to petty cash custodians (Completed);
- Enhanced monitoring of petty cash replenishments (Completed);
- Review of existing petty cash advance requirements (Deferred to 2012-2013); and
- Clarification of standard operation procedures for contribution agreements and communication of procedures to stakeholders (Completed).

NRC has conducted the following work to address the adjustments identified from the prior year assessments, or has deferred the work to subsequent years as indicated:

- Updated documentation and consistent application of Accounts Payable processes to reflect expected Section 33 quality assurance requirements (Completed);
- Development of a management action plan resulting from the fraud risk assessment (Completed);
- Review of the roles and responsibilities for the monitoring requirements of the capital assets management processes and implementation of the required additional monitoring (Partially completed in response to 2010-2011 assessment; implemented temporary measures to meet financial statements requirements);
- Implementation of remediation actions to address gaps between the NRC and the government of Canada payroll administration framework (Deferred to future years due to low risk level);
- Streamlining, strengthening and standardization of key controls between NRC's Institutes which initiate processes and/or record a significant portion of NRC's revenues. Implementation of a continuous revenue file monitoring plan (Partially completed in response to 2010-2011 assessment; implemented temporary measures to meet financial statements requirements);
- Control of access to IT programs and data, IT program changes, backup and recovery of data, and improved audit trail relative to various IT controls (Partially completed in response to 2010-2011 assessment);

- Strengthening and standardization of the processes and procedures to maintain master vendor and customer records (Partially completed in response to 2010-2011 assessment); and

- Reporting and monitoring strategy for conflicting roles in the financial system (Deferred to 2012-2013).

5.2 Action plan for the next fiscal year and future years

NRC will continue the ongoing monitoring and rotational assessment of its system of ICFR as stated in section 3.2 above and will report the results in this annex annually. NRC also plans to continue remediation of adjustments identified during its assessments. In addition, when new business processes are introduced, or significant internal control process changes occur, NRC will proactively identify, document and test key controls based on associated risks, and the results will be incorporated into the assessment plan and the ongoing monitoring program.